

# Develop understanding of Entrepreneurship

# 1.1 CREATIVITY AND INNOVATION

## Creativity

- It 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.
- 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.

## Innovation

- The ability to apply new ideas that will enable you to undertake unique activities is another hallmark of enterprising people.
- Gathering information is an important input for being innovative.

# BUSINESS IDEA GENERATION AND IDENTIFICATION

- A good business idea is essential, or even a prerequisite, for a successful business venture. However, good business ideas do not usually just occur to an entrepreneur. Rather, they are the result of hard work and effort on the part of the entrepreneur in generating, identifying and evaluating business ideas that can be developed into a business opportunity.
- A **business idea** is the response of a person or an organization to solving an identified problem or to meeting perceived needs in the local environment (markets, community, etc.). Finding a good idea is the first step in transforming the entrepreneur's desire and creativity into a business opportunity.

# Why Generate Business Ideas?

- You need an idea to start a new business
- To respond to market needs
- To respond to natural threats and scarcities
- Changing fashions and requirements
- To stay ahead of the competition
- To exploit technology-do things better
- Because of product life cycle
- To spread risk and allow for failure
- Business ideas can help specific groups of people

# Sources of Business Ideas

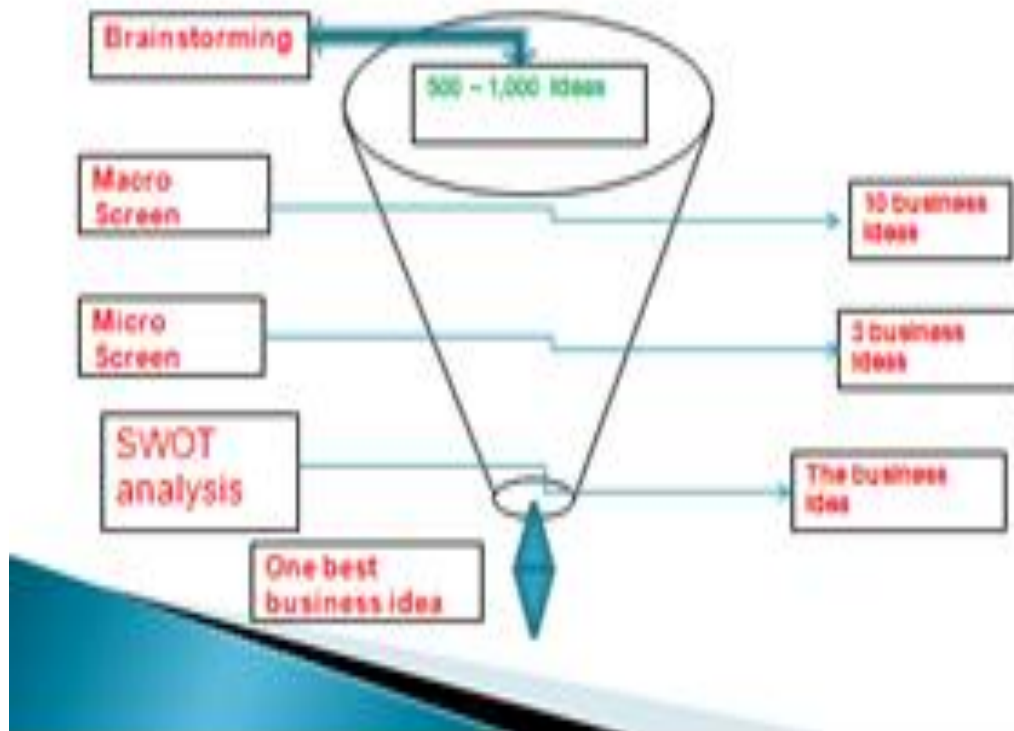
- Hobbies/Interests
- Personal Skills and Experience
- Franchises
- Mass Media (example newspapers, magazines, TV, Internet)
- Business exhibitions
- Surveys
- Customer complaints
- Natural scarcities and pollution
- Change in society
- Being Creative
- Brainstorming:

# Generating and Screening Business Ideas

## Screening Business Ideas

**Figure:** Idea generating and screening model

### Funnel model



# 1. Macro Screening Criteria (First stage screening)

- Marketability,
- Availability of raw material,
- Ease of implementation,
- Financial ability of the entrepreneur, etc.

## 2. Micro Screening (Second Stage Screening)

### a) Marketing Viability

- Product
- Target Market
- Size of Target Market
- Demand and Supply Situation
- Competition
- Marketing Practices

### b) Technical Viability

- Technology
- Source of Technology
- Raw Materials
- Infrastructure and Facilities
- Location , Skills , Cost

### c) Organizational and Management Viability

- Abilities, competencies, skills, values and motivations of management/key officers as per the requirements of project.
- Appropriate legal personality and organization.

### d) Financial Viability

- Project Cost
- Sources of Financing
- Profitability



# 3. SWOT analysis

**1. Strengths:** Strengths are within the control of the entrepreneur and they occur at present. Strengths should be capitalized and harnessed to make weaknesses redundant.

- technical expertise
- new improvements of product
- good network with customers
- packaging
- managerial experience
- superior technology
- distribution system
- product features (utility durability,, etc.)
- comparatively cheap price

**2. 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!

- no control over raw material
- lack of promotion experience
- limited product life
- technological obsolescence
- poor design of product
- inexperienced / owners managers/owners
- weak selling effort
- lack of working capital
- comparatively high price
- low level of stocks in times of peak

**3. 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.

- few and weak competitors
- no such products in the market
- rising income of target market
- scarcity of product in the locality
- growing demand
- favourable government policy
- similar products making profit
- favourable government programs
- technical assistance available
- low interest on loans
- access to cheap raw material
- adequate training opportunities

4. **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. The purpose of analyzing threats is to look for ways of hedging against them, i.e., trying to **avoid them** or lessening their negative impact by making counterbalancing actions.

- rising raw materials costs
- too much competition
- government bureaucracy
- restive labour force
- raw materials shortages
- piracy of skilled labour
- natural disasters
- insufficient power
- graft and corruption
- poor infrastructure
- hanging government regulations
- smuggling

# IDENTIFYING, ASSESSING AND SELECTING BUSINESS OPPORTUNITY

## Identifying Business Opportunities

- Seeing, seeking and acting on opportunities is one of the characteristics of successful entrepreneurs. It is also the basis for starting and maintaining successful ventures. It involves not only generating ideas and recognizing opportunities, but also screening and evaluating them to determine the most viable, attractive propositions to be pursued.

## 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. Such opportunities are represented by customer requirements and lead to the provision of a product or service which creates or adds value for the buyers or end-users.

# Characteristics of a good Business Opportunity

To be a good business opportunity, it must fulfill, or be capable of meeting, the following criteria:

- Real demand
- Return on investment
- Be competitive
- Meet objectives
- Availability of resources and skills:

# DEFINITION, CONCEPTS AND ROLE OF ENTREPRENEURSHIP

- 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.
- There are **five elements** of entrepreneurship:
  - observing the environment,
  - identifying opportunities,
  - gathering the necessary resources,
  - implementing the activity and
  - receiving rewards for engaging in the activity.

# Entrepreneurial Functions in Business

- identify gaps in the market
- finances and mobilizes resources
- organize and manage
- bearing the uncertainties and risks
- encourage competition
- applying entrepreneurship

## 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



# Economic Principles of Entrepreneurship

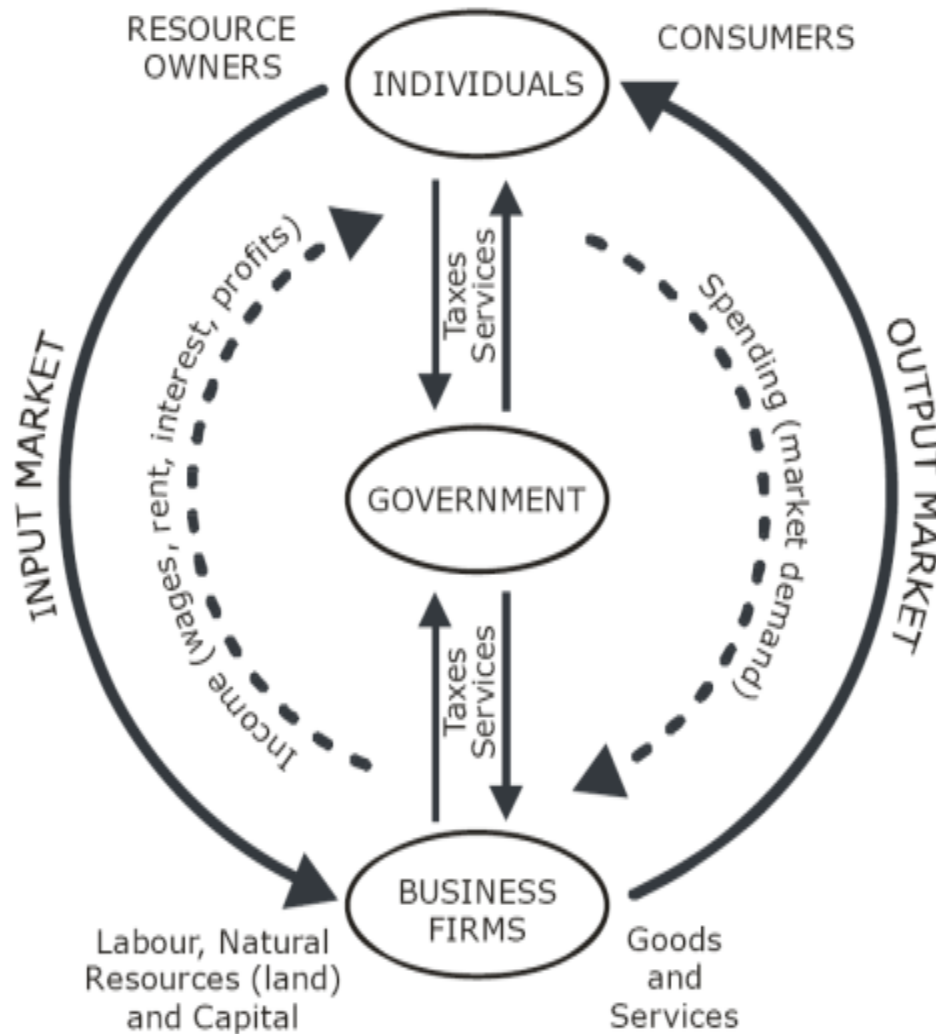
- Open market economy
- Private enterprise
- Adding value (creating wealth)
- Needed products/service
- New markets

## Rewards for Being an Entrepreneur

- Self-actualization/personal fulfillment
- Feeling of freedom and independence
- Providing jobs and benefits to others (investors, suppliers, bankers, subcontractors, work force, and customers).
- Economic goods (product/service, incomes for workers, profits for shareholders/partners)

# IMPORTANCE OF ENTREPRENEURSHIP IN SOCIETY

- **The Operations of an Economy**



**Figure: Circular flow of money spent by consumers and business firms**

# Importance of Entrepreneurship

- Employment creation
- Local resources
- Decentralization and diversification of business:
- Promotion of technology
- Capital formation
- Natural resources
- Promotion of an entrepreneurial culture

# MEANING OF ENTREPRENEURS AND COMPETENCY NEEDED TO BECOME AN ENTREPRENEUR

## Who are Entrepreneurs?

- An entrepreneur may be defined as a woman or man who is able to scan the immediate environment, generate ideas, gather resources and take action to take advantage of an opportunity.
- Entrepreneurs are action oriented, highly motivated individuals who take risk to achieve goals.
- Entrepreneurs are those who bring resources together in unusual combination to generate profits (Economists).
- Entrepreneurs are achievement oriented individuals drive to seek challenges and new accomplishments (Psychologists).
- Entrepreneurs are small business owners having the potential needed for corporate management (Managers).
- An entrepreneur is someone who always searches for change, responds to it, and exploits it as an opportunity (Drucker).
- An entrepreneur is any man or woman who apply the five elements of Entrepreneurship.

# Importance of Entrepreneurs

- Entrepreneurs are expert users of resources.
- Market-based economy to work well, efficiently and prosperously, it requires entrepreneurs.
- Entrepreneurs make the economic system work and make life better for everyone concerned by creating new products, developing new and efficient methods, and offering products and services at reasonable prices because of competition.
- Entrepreneur recognizes what consumers want or might want, and provides it in a competitive manner for sale.
- Entrepreneur makes effective decisions on how to produce efficiently in order to provide competitive products and services, whose prices and quality are acceptable to the customer.
- A socially responsible entrepreneur provides services and products which meet safety, environmental and other legal requirements such as accessibility and universal design.
- Entrepreneurs make decisions on how to distribute the goods and services that are produced to those customers willing and able to pay for them.
- Entrepreneurs are able to offer prices that influence consumers' decisions to buy.

# Competencies for Successful Entrepreneurship

## What is competency?

- Competencies may be defined as:
  - a body of knowledge,
  - a set of skills and
  - a cluster of traits.
- Competency is the possession and application of knowledge, skills and attitude in job related environment.

**Knowledge:** is 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
  - customers
  - production processes
  - the market
  - competitors
  - technical matters
  - sources of assistance
- Knowledge of business or entrepreneurship, however, is not enough for success in setting up and operating a business.

- **Skill:** is 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**

- Engineering
- Computing
- Sewing
- Carpentry
- Mechanics
- Catering

### **Managerial**

- Marketing (including selling)
- Time management
- Financial management
- Organization
- Planning
- Leadership

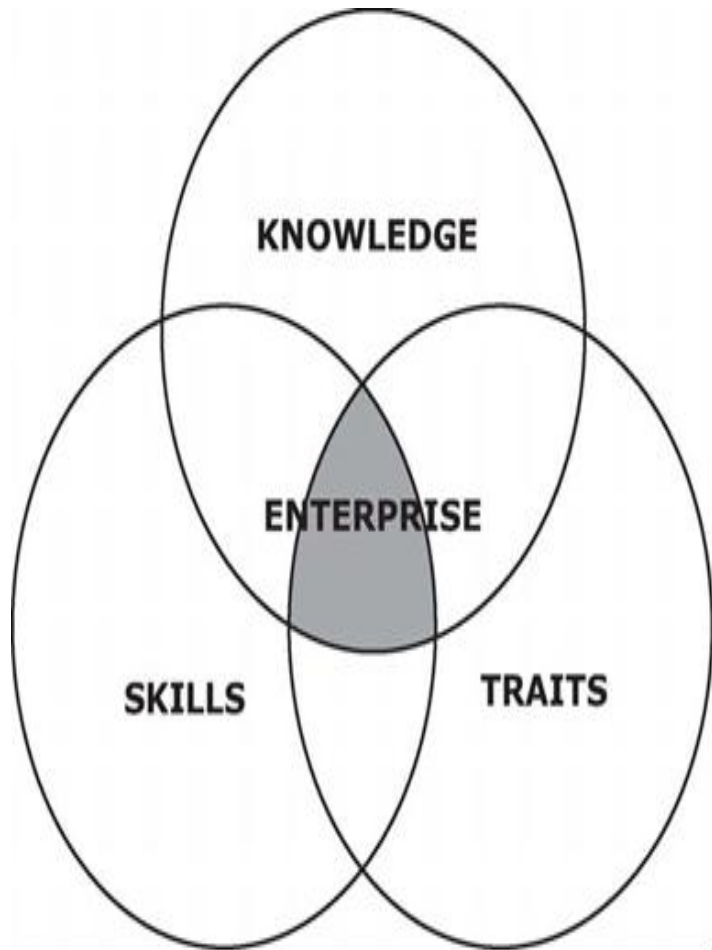
**Trait:** is the total of peculiar qualities or characteristics that constitutes personal individuality. In a cross-cultural study by USAID, 14 personal entrepreneurial characteristics (PECs) that appear to depict the behavior of successful entrepreneurs were identified. The 14 PECs can be summarized as follows.

Traits take time to develop and are not easily changed or acquired.

● **A successful entrepreneur:**

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





It is probable that a person, who does not have all 3 competencies for his/her business, will encounter difficulties in operating the venture successfully. What would happen if a person had only?

- Knowledge and skills?
- Knowledge and traits?
- Skills and traits?

**Figure:** The combination of competencies for successful entrepreneurship

# 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. Once you know where you want to go, the next step is to figure out how you'll get there and how much you're willing to spend on the trip.

## Use the SMART System to set a successful Goal

When it comes to goal setting, the SMART system is simple, down-to-earth and gets the job done. Each goal must be defined so that it meets the following criteria:

- **S – Specific:** Goals should be straightforward or uncomplicated and emphasize what you want to happen. Specifics help us to focus our efforts and clearly define what we are going to do.
- **M – Measurable:** If you can't measure it, you can't manage it. In the broadest sense, the whole goal statement is a measure for the project; if the goal is accomplished, it is a success.
- **A – Achievable/Attainable:** When you identify goals that are most important to you, you begin to figure out ways you can make them come true.
- **R – Realistic:** This is not a synonym for “easy.” Realistic, in this case, means “do-able.”
- **T – Time bounded:** Set a timeframe for the goal: for next week, in three months, by fifth grade.

**\*These are basic elements make goals successful**

# ENTREPRENEURIAL MOTIVATION

## Meaning of Motivation

- Motivation is internal and external factors that stimulate desire and energy in people to be continually interested in and committed to a job, role, or subject, and to exert persistent effort in attaining a goal.
- Motivation is something that moves a person to action, and continues him in the course of action already initiated.
- Motivation is a set of forces, originating both within and outside the individual, that initiate behavior and determines its form, direction, intensity and duration.
- Motivation refers to forces that energize, direct and sustain a person's effort.

# What motivates an Entrepreneur?

- The respondent entrepreneurs were motivated primarily by the desire to create something new, the desire for autonomy, wealth and financial independence, the achievement of personal objectives and the tendency for action ('doing').
- The following are some of the driving forces of entrepreneurs:
  - Autonomy
  - Making money/financial independence
  - Saw business opportunity/impact on industry
  - Desire to create something new/innovate
  - Recognition of self and/or organization
  - Build something important/make a difference
  - Grow a business from scratch
  - Desire to be entrepreneur/excitement of entrepreneurship
  - Utilize previous experience

# Motivation and Attitudes

- 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.
- 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.

# PROBLEM SOLVING AND DECISION MAKING SKILLS

- The word decision is defined as:  
*“A choice made between two or more alternatives”.*
- Thus decision-making can be defined as:  
*“the selection of a course of action from among alternatives ”.*
- 
- The “scientific method” of decision-making indicates that there are specific procedures to be followed to solve a problem and make a decision. The process usually involves the following steps:
  - Identify the major problem
  - Determine major causes of the problem
  - Determine potential solutions
  - Evaluate the potential solutions
  - Select the best solution
  - Implement the solution
  - Verify that the solution resolves the problem.

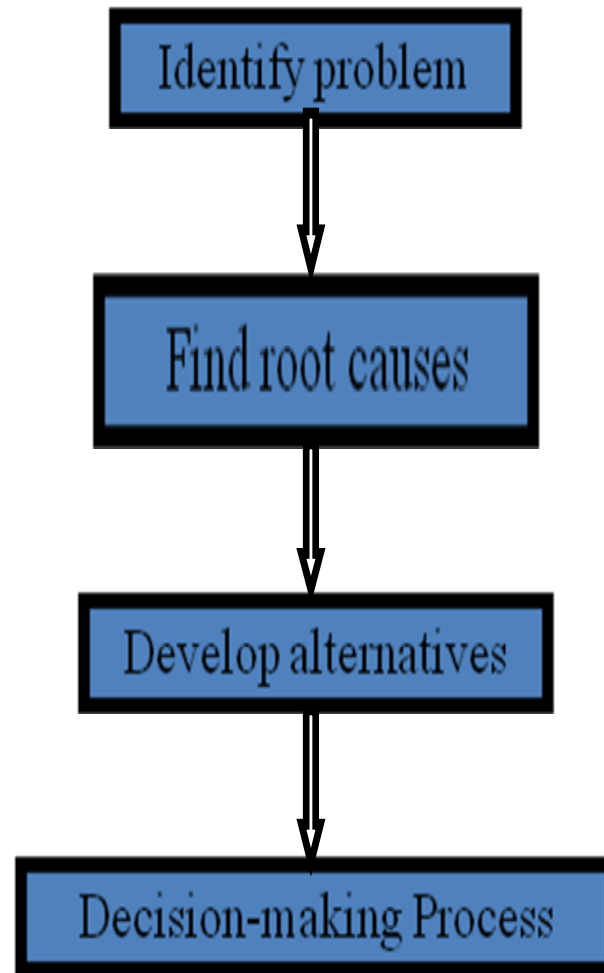
- **Positive aspects of group decision-making**
  - The total sum of the group's knowledge is greater
  - Groups generally develop a much wider range of alternatives.
  - Participation increases the acceptability of the decision to the group.
  - Group members understand better why a decision was made.
- **Negative aspects of a group decision-making**
  - More time is needed.
  - One individual or dominant group (sometimes based on gender) may control the group.
  - Pressures to conform may inhibit group members from responding.
  - Competition can become overly intense among group members.
  - Groups tend to accept the first potentially positive alternative.
  - The decision may be a compromise that may be unsatisfactory to some group members.



# Problem Solving

- Problem solving is the process of finding the root cause of a deviation (cause analysis) whereas, decision making is the process of choosing from alternative courses of action (choice analysis). It is a mental process that involves discovering, analyzing and solving problems. The ultimate goal of problem-solving is to overcome obstacles and find a solution that best resolves the issue.
- Decision making and problem solving are two processes that people consider whenever resolving a problem.

# Figure: problem solving versus decision making process



# ENTREPRENEURIAL LEADERSHIP SKILLS

## Meaning of Leadership

- Leadership is a process of getting things done through people.
- Leadership is a process of influencing and stimulating people and providing an environment for them to achieve team or organizational objectives ( McShane, & Von Gillino, 2003).
- Leadership is a special case of interpersonal influence that gets an individual or group to do what the leader wants done
- Leadership is influence or the art or process of influencing people so that they strive willingly and enthusiastically toward the accomplishment of group goals.

# Leadership Styles

- There is no single best way to be a leader. Entrepreneurs are individuals who have developed their own personal styles of leadership. The following three styles of leadership are commonly used:
  1. **The “iron fisted” or autocratic leader** makes decisions and gives orders without asking the opinion of employees. It is used when leaders tell their employees what they want done and how they want it accomplished, without getting the advice of their followers
  1. **The “let’s vote” or democratic leader** gives group members a voice in decisions. It involves the leader including one or more employees in the decision making process (determining what to do and how to do it) and the leader maintains the final decision making authority.
  1. The **“hands-off” or laissez-faire** allows the employees to make the decisions/leaves all decisions up to the group members.

## Important Leadership Traits

- Treat others more like people than numbers
- Tactful and consistent in relations with others
- Fair and honest in dealing with others
- Sets good example for others
- Cooperative
- Dependable
- Good listener and respects others' point of view
- Cheerful and optimistic
- Helpful in assisting others to do a better job
- Receptive and accepts new ideas
- Emotionally stable in dealing with people
- Hard worker
- Receptive and accepts new ideas
- Emotionally stable in dealing with people
- Hard worker
- Loyal to employees
- Accepts responsibilities
- Admits mistakes
- Obtains good work results
- Good work habits
- Promotes well being and belongingness among employees

# MICRO VERSUS SMALL ENTERPRISES

# SELECTING A SUITABLE MARKET

## What is a market?

- The market for a business is all the people within a specific geographical area who need a specific product (goods or service) and are willing and able to buy it. Every business sells some type of product (goods or service) to people. Potential customers can be described as:
  - People who need or want the product.
  - People who are able to buy the product.
  - People who are willing to buy the product.
- Competition must be considered. If they are serving the same market, it must be decided if the market is large enough to support another business. It should also be determined how the product or service is unique and different from that of the competitors.

## What should entrepreneurs know about potential customers?

- Know the customers
- Know what different customer groups wants
- Know where the customer buys
- Know when the customer buys
- Know how the customer buys

## 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.



# What is market research?

- **Market research** is the systematic design, collection, analysis and reporting of data and findings relevant to a specific marketing situation facing the organisation.
  - I. Define the problem
  - II. Develop research plan
  - III. Collect data
  - IV. Analyze data
  - V. Present findings/ Prepare a report of findings
  - VI. Make decision

# Data Sources:

- **Primary data sources:** information which originates as a result of contacts with those who are directly involved in the relevant activity. It may be obtained from manufacturers, wholesalers, retailers, suppliers, competitors, customers, etc.
- **Secondary data sources:** data which already exists and may be used in the investigation. This data may not have been collected for a specific purpose. It may be obtained from trade/manufacturer's associations, libraries, internet, chamber of commerce, government agency, newspapers, magazines, etc.

# What is the marketing mix (MM)?

- In general, the marketing mix is used to describe how entrepreneurs can combine the following four areas into an overall marketing program.

## 1. Product mix

- Product is anything that satisfies the need and wants of customers. It is a bundle of tangible and intangible attributes which satisfy the needs and wants of customers.

## 2. Price mix

- Price is the amount of money consumers have to pay to obtain the product.

## 3. Place/distribution mix

- Place includes enterprise activities that make the product available to target consumers.
- Promotion is enterprise activities that communicate the merits of the product and persuade target customers to buy it.

## 4. Promotion mix

- Promotion is enterprise activities that communicate the merits of the product and persuade target customers to buy it.

# Know Your Competitors

- Competition must be expected when initiating a business, but having too much competition is an unnecessary risk. It would be better to select a different type of business if there is too much competition. You must know your competitors as well as you know your customers.
- The following steps should be taken by entrepreneurs to get to know their competitors:

## **Step 1: Identify your competitors**

- a. Direct competitors
- b. Indirect competitors

**Step 2: Analyze businesses that have recently been set up and recently failed**

**Step 3: Analyze existing businesses**

**Step 4: Compare your proposed business operations against the competition**

# SELECTING A BUSINESS LOCATION

- Selecting the business location is one of several factors which is vitally important to the success or failure of a small business.
- Two basic aspects of selecting a location for a business are:
  - deciding on a particular community, and
  - selecting a particular site within that community.
- **General Factors in Selecting a Business Location**
  - ECONOMICS
  - POPULATION
  - COMPETITION

# LEGAL FORMS OF BUSINESS OWNERSHIP

## **Sole proprietorship/Sole trader**

- It is a business concern owned and operated by one person. The sole proprietor is a person who carries on business exclusively by and for him/herself.
- The legal costs and procedures for starting this form of ownership are to determine if a
  - license is required for the particular business,
  - tax or license fee must be paid.
- The sole proprietorship is the easiest business to start and the initial costs are usually lower than those for other legal forms.

# Characteristics of sole proprietorship

- Single ownership
- One man control/owner manager
- Undivided risk
- Unlimited liability: A sole proprietor is personally liable for all the debts of the business. If necessary, this liability includes all of the proprietor's personal property and assets.
- No separate entity of the business
- Minimum government regulations

## Advantages of sole proprietorship

- Simplicity: it is very easy to establish and dissolve the business.-
- Quick decision
- High secrecy
- Low costs to start
- Minimum regulations
- Direct control of business/ personal touch: the owner can maintain personal contact with his employees & clients.
- Low working capital requirements
- Tax advantages
- Owner receives all profits/ direct motivation
- Flexibility

## Disadvantages of sole proprietorship

- Unlimited liability
- Limited skills
- Lack of continuity/ uncertain life: The business is terminated upon the death or incapacity of the owner.
- Difficulty in raising capital/limited financial sources
- The sole proprietor is responsible for all decisions



# Partnership

- It is formed through an agreement among two or more persons to carry on jointly a legalized business as co-owners. It is recommended that a partnership agreement, called the Articles of Co-partnership or Memorandum of Association, be prepared in writing by a competent attorney. The Memorandum of Association should contain at least the following provisions:
  - division of profit or loss
  - compensation to each partner
  - distribution of assets in the event of dissolution
  - duration of the partnership
  - duties of each partner
- Persons who enter into such agreement are partners.

# Characteristics of Partnership

- Association of two or more persons
- Contractual relationship/ mutual agreement
- Existence of lawful business
- Sharing of profit and loss
- Mutual agency among partners: Each partner is responsible and liable for the faults and wrongful acts of co-partners with regard to business obligations.
- No separate legal entity of the business
- Unlimited liability
- Restriction on transfer of interest
- Utmost good faith

# Advantages of Partnership

- Easy to form
- Low costs to start
- Larger/added capital sources
- Shared management/specialization
- Protection of minority interest: each partner has an equal role in management of firm's affair.
- Capacity for survival: the partnership is terminated upon the death, incapacity or withdrawal of any one of the partners, unless the remaining business partners buy the deceased, incapacitated or withdrawn partner's interest.
- Tax advantages
- Business secrecy

# Disadvantages of Partnership

- Unlimited liability
- Lack of continuity
- Lack of harmony
- Risk of implied agency
- Shared authority
- Difficulty in raising additional capital/limited financial sources
- Non-transferability of interest
- Difficulty in finding suitable partners

## Share Company

- It is an association of stockholders that has been established according to law. The officials of the share company must file a special document, called the Articles of Incorporation/Charter.
- Cooperative
- It is a group of ten or more people operating a business through a jointly owned and democratically run organization. The cost of registering a cooperative is usually lower than the cost for registering a limited company.

# MONEY NEEDED TO START AN ENTERPRISE

## Estimating the Start-up Capital

- If someone wants to start a business he/she 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. It serves two purposes:
  - 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 machinery, tools, equipment, office furniture, legal fees, utility connections for water, electricity and telephone, publicity and advertising, etc

## 2. Initial operation payments or working capital

- It will occur when a new business starts to operate, to cover immediate expenses until revenues from sales flow back into the business. This time span depends on the nature of the business.
- This money is also invested permanently in the business and is **working capital**. When the business expands the working capital needs to be increased.

# OBTAINING MONEY TO START AN ENTERPRISE

There are two primary sources of financing to establish a business. These are: **(a) owner's equity or (b) borrowing from lending institutions.**

## 1. Equity financing

- It is the money the owner puts into the business.
- It is the owner's investment in the business.
- The main sources of equity financing for most entrepreneurs are:
  - personal savings
  - Family and friends
  - Partners
  - corporation
- Financial experts say that one-half of the money needed to start a small business should come from the owner. This means future owners must work and save to have enough money to start a business.



## 2. Borrow from lending institutions

- Borrowing needed capital for the business is called credit or debt financing.
- The lender must sense that the business owner has a personal commitment and involvement in the business.
- This personal commitment includes the time, energy and money the owner is willing to contribute to the business.
- Lenders will usually review a business plan very carefully to lend money.
- This plan should 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.
- Credit or debt financing obtained from: Banks, finance companies, governments agencies (with loan schemes), trade credit and microfinance institutions

# Considerations in applying for a business loan

- Different lending institutions have different procedures which have to be followed by the loan applicant. It is necessary to understand the following factors that are taken into consideration when a banker is appraising a loan application.
  - Type of loan
  - Purpose of the loan
  - Credit worthiness and integrity of the borrower
  - Capability
  - Repayment period
  - Security or collateral
  - Guarantors
  - Business plan
  - Customers past financial records
- A banker or loan officer will take into consideration the five C's of credit when evaluating a loan applicant:
  1. Character
  2. Capacity
  3. Capital
  4. Conditions
  5. Collateral

## How will the capital be used?

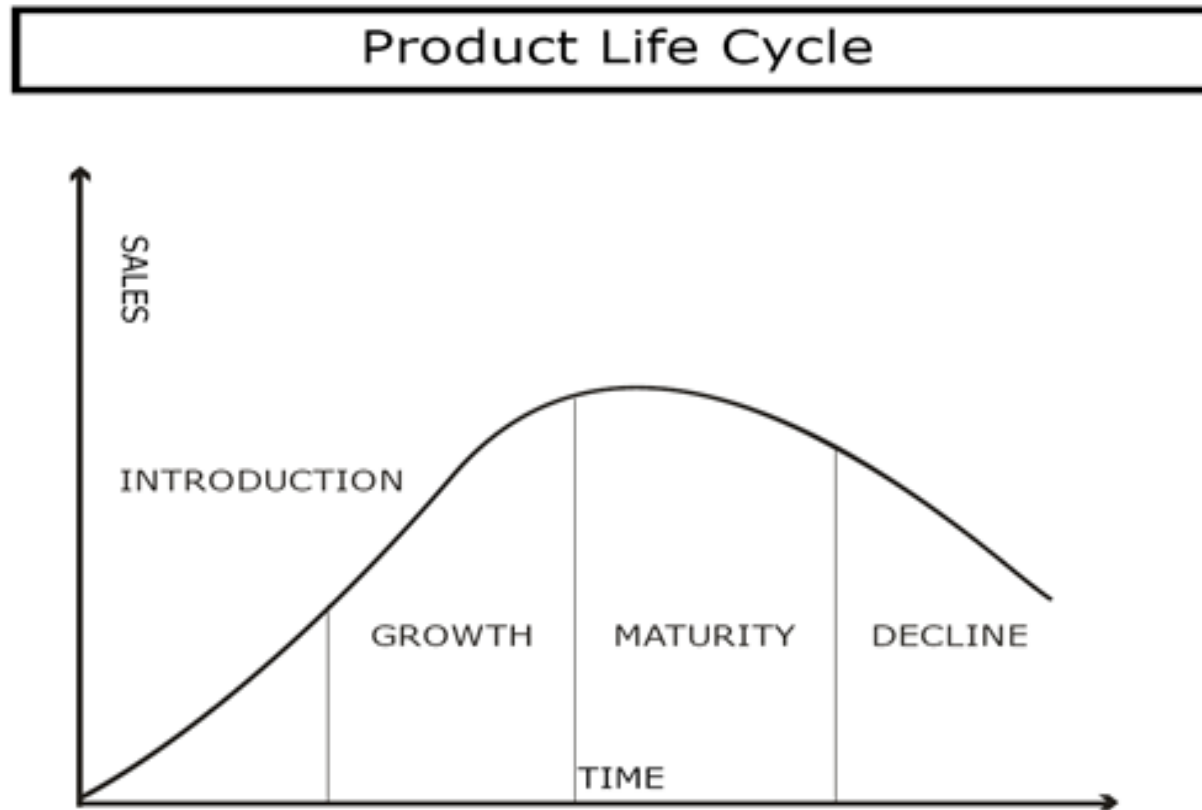
- To help determine your money needs, three groups of costs and expenses are examined: start-up costs, operating expenses and personal expenses.
- Start-up costs: expenses that occur once only when starting the business. Once your business is started, you may never have these expenses again.
- Operating expenses: until there is enough profit to keep the business running, money will be needed for operating expenses.
- Personal expenses: these include costs that are necessary for you to live. You need money for personal expenses such as rent payments, food, transportation, insurance, clothing, utilities, medical bills and entertainment.

# MANAGING SALES

- **Selling** is an art, and for entrepreneurs to be successful in business they must be good at selling their products and/or services.
- **communication** is extremely important in the sales process
- **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
- **Individual Assignment 5%: what are the Qualities of Potential Customers and the required selling communication**

# 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.



# COSTS OF STARTING AN ENTERPRISE

## Cost 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, e.g. raw materials, office furniture, telephone bills, salaries for the workers, etc. These expenditures are called 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
  - **Direct material costs:**
  - **Direct labor costs:**
- **B. Indirect costs (overhead costs):** are all other costs generated from business activities that are not direct costs or costs that cannot directly be attributed to a specific product or service.

## Total cost of a product or service:

$$\begin{aligned} & \text{Sum of Direct Material Costs} \\ & + \text{Sum of Direct Labor Costs} \\ & + \underline{\text{Proportion of Indirect Costs}} \\ & = \text{Total cost per product or service} \end{aligned}$$

# ● **Classification of Costs by Categories**

- Staff Costs
- Material costs
- Capital costs
- Other costs

## ● **KEEPING RECORDS OF A BUSINESS**

- An efficient record keeping system is required for any business. All business transactions should be fully recorded on paper.
- **What kinds of records should a small business keep?**
  - Payroll.
  - Cash Balance
  - Accounts Receivable
  - Accounts Payable
  - Inventory Records
  - Government Requirements.
  - Financial Statement.

# USING FINANCIAL STATEMENTS

- Financial statements help to determine the financial performance of a particular business. By using financial statements, the business can compare current performance with performance in previous years. These comparisons are essential for planning the future and also highlighting the strengths and weaknesses of the business operation.
- Types of Financial statement:
  1. Income statement
  2. Balance sheet statement
  3. Cash flow statement



# PREPARING A BUSINESS PLAN





