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the
ENTREPRENEUR
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Things that make you go hmmm....

Can you be in the top 1%
Only 1% of small business ventures survive past 10 years

Entrepreneur vs Employee
A good employee does not always make a good entrepreneur

Success
There is much more to success than a great idea!

THE ENTREPRENEUR ISSUE

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INTRODUCTION



This module will help you plan for success by providing information on getting started, selecting a business, developing a business plan, financing your business, and marketing your product or service.

Starting a small business can be risky and challenging, but you can improve your chances for success with good planning and preparation. Just as in personal finance, the wise business owner will not spend more than what is budgeted.

Potential business owners must determine if they possess the right skills to be successful. This step must be completed even before they determine if the product or service they intend to provide is marketable.

TERMS TO LEARN

Business Plan

A business plan is a document prepared by a company's management team, detailing the past, present, and future of the company. It is usually designed to attract capital investment.

Capital

Cash or goods used to generate income either by investing in a business or a different income property.

Debt Financing

The acquisition of funds by borrowing money from a financial institution. The lenders of the funds become creditors and receive promise of repayment of principal and interest on the debt.

Debt-to-Equity Ratio

A measure of a company's financial leverage. It indicates what proportion of equity and debt the company is using to finance its assets.

Entrepreneur

One who organizes, manages, and assumes the risk of a business or enterprise.

Equity Financing

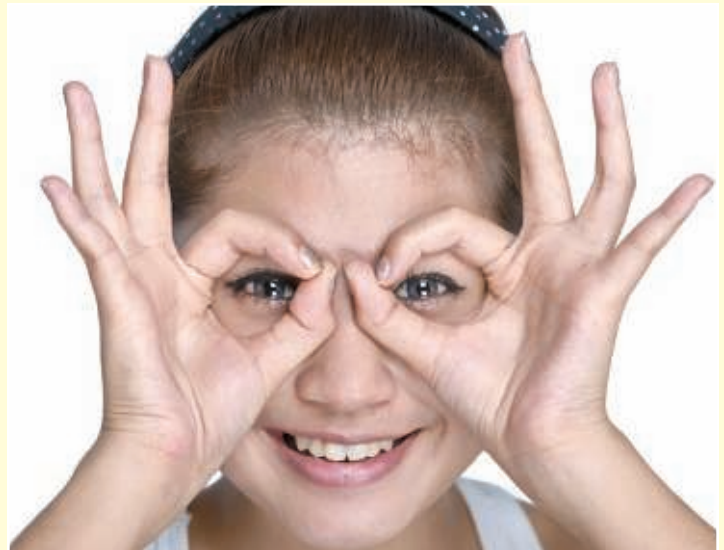
The act of raising money by selling common or preferred stock to individual or institutional investors. In return for the money paid, shareholders receive ownership interests in the corporation.

Market Research

The gathering and evaluation of data regarding consumer preferences for products and services.

Market Survey

Gathering information regarding opinions, trends, and competitors. It helps gauge interest in new products and service offerings, and it generates a list of potential customers.



Niche

A special area of demand for a product or service.

Situational Analysis

A part of the overall organizational strategic planning process, which involves research and analysis of both internal and external environmental factors, consideration of organizational successes and failures, and the impact of the organization's past and present abilities to reach its goals.

Small Business Administration (SBA)

The U.S. Small Business Administration is an independent agency of the federal government that provides financial assistance to aspiring business owners through business loan programs.

Start-up Costs

Costs incurred to begin a business. They typically include real estate, equipment, technology, supplies, materials and employees.

STARTING A SMALL BUSINESS

Owning your own business has risks and rewards. The key to any successful business is the knowledge of your market and knowing how to manage your finances.

Eighty-five percent of start-up businesses fail within the first year. However, this number decreases to seventy percent the second year, and for each following year the odds get better for success. Many entrepreneurs have a great product or service, but they lack the business skills to build a successful venture.

Think things through, and make a plan before starting your business. Find out if you possess the skills needed to start a business. Determine how you're going to fund your new business.

- Are you willing to use your savings?
- How much will you need to borrow?
- Are you willing to deal with a possible loss of income?

Make sure you know the costs of insurance, taxes, start-up expenses, equipment expenses, marketing material, and legal fees. If applicable, learn how to apply for patents, copyrights, and trademarks.

There are many things to consider when starting a small business. By doing research, seeking help, and tapping into available resources, you have a better chance of success.

Self-Analysis

Prior to making the decision to start a small business, certain factors must be considered. You must first determine if you have the skills and personality traits to become a successful business owner. Working for an employer and being self-employed are two very different things. A good employee does not always make a good entrepreneur.

Perform a self-analysis to see if you have what it takes.

Identify Your Reasons

- Why do you want to start a business?

Assess Yourself

- Do you have the right personality to be a business owner?

Personal Skills and Experience

- What skills do you have?
- What skills do you need?
- What past experiences can help you?



IDENTIFY YOUR REASONS

- Ask yourself why you want to start your own business.
- Is it because you are not happy with your current job?
- Is it because you want the freedom of being your own boss?
- Do you have a product or service for which there is a demand but no supply?

Answering these questions honestly may confirm the desire to start a business or identify potential problems with starting one.

Assess Yourself

Certain personality traits may help you be successful. Common characteristics of successful business owners are:

- Persistence
- Inquisitiveness
- Ambition
- High energy level
- Goal-oriented behavior
- Independence
- Perfectionism
- Self-confidence
- Ability to take calculated risks
- Creativity
- Innovative thinking
- Problem-solving skills
- Reliability
- Ability to consolidate resources
- Strong management and organizational skills
- Tolerance for failure
- Desire to work hard

Are you ready to take on this challenge?

- Are you a leader?
- Are you a good decision maker?
- Do you plan ahead?
- Do you have will power and self-discipline?
- How well do you get along with other people?
- Do you enjoy competition?
- Is your physical and emotional stamina strong enough to handle the workload, schedule, and possible failure?

Running a business can be draining and affect your family life. Although people do not plan to fail, success in business is never automatic. It may temporarily result in a lower standard of living or even loss of savings. An entrepreneur must be able to deal with these types of risks.

Personal Skills and Experience

As previously discussed, certain basic skills are needed to have a successful business. Do you possess those skills? Examine your existing attributes, and determine what skills and experience you have and what you still need.

List all your current skills and education

Do not leave anything out, especially if you are unsure what type of business you want to start.

Focus on your business experience

If you know what type of business you want to start, list what you know about the field or industry. If you are unsure, list specific business knowledge you have rather than general life experience.

Evaluate your decision-making abilities

Recall problem-solving decisions you have made in the past. Write down two instances where your decision yielded a positive result and two instances where the result was not positive. Write down what you learned from each situation.

Assess your entrepreneurial skills

Entrepreneurs have a lot of initiative and the ability to take risks. The road to success lies in your ability to be flexible, your ability to change as the market demands, and your ability to trust yourself. This evaluation helps you focus on and identify your talents, strengths, and weaknesses. It will help you determine if you have what it takes to become an entrepreneur. It could prompt you to obtain the necessary skills to proceed, or to find someone who has the skills you lack. Since it is unlikely that you possess all the skills and experiences needed, hire personnel who complement your existing skills.



SELECTING A BUSINESS

Identifying a Business Niche

Getting into the right business at the right time is difficult. The most critical problem you will face is determining the feasibility of your idea.

- **Does your product or service satisfy an unfilled need?**
- **Will your product or service serve an existing market in which demand exceeds supply?**
- **Will your product or service be competitive based on its quality, selection, price, or location?**

Small operations can customize their goods and services to attract a specific group of prospective buyers. There are undoubtedly some particular products or services you are especially suited to provide. Study the market carefully, and you will find opportunities.

While researching your company's niche, consider the results of a market survey and the areas in which your competitors are already firmly situated. Put this information into a table or a graph to illustrate where an opening might exist for your product or service. Try to find the right configuration of products, services, quality, and price that will ensure the least amount of direct competition.

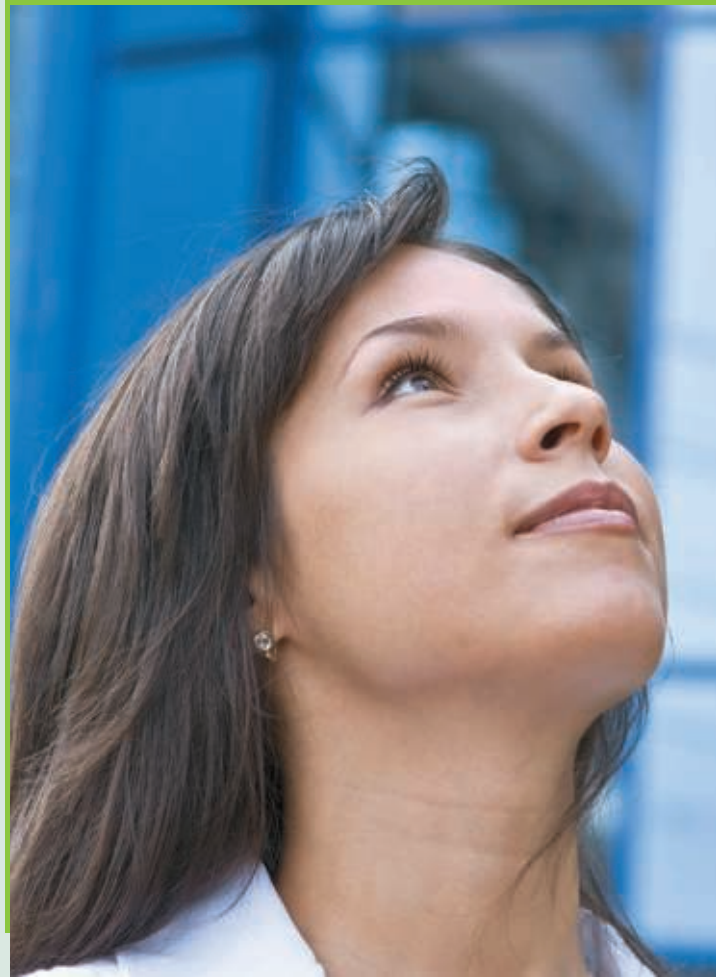
Unfortunately, there is no universally effective way to make these comparisons. Not only will the desired attributes vary from industry to industry, but there is also an imaginative element that cannot be formalized.

A well-designed database can help you sort through your market information and reveal particular segments you might not see otherwise.

For example:

- Do customers in a certain geographic area tend to purchase products that combine high quality and high price more frequently?
- Do customers prefer the personalized service and attention usually provided in a small business atmosphere rather than the "take-a-number" service sometimes provided by larger companies?

If you've answered yes to either question, you may want to consider focusing on being a local provider of high quality goods and services or a service-oriented company that pays extra attention to other small businesses.



Market Research

Market research can also help you identify a potential niche. According to the American Marketing Association, market research is the systematic gathering, recording, and analyzing of data relating to the marketing of goods and services.



Every small business owner-manager must ask these questions to devise effective marketing strategies:

- Who are my customers and potential customers?
- What kind of people are they?
- Where do they live?
- Can and will they buy my product or service?
- Am I offering the kinds of goods or services they want at the best price, at the best time, and in the right amounts?
- Are my prices consistent with what buyers view as the product's value?
- Are my promotional programs working?
- What do customers think of my business?
- How does my business compare with my competitors?

Obtaining specific answers to these questions will help identify any problems you may face converting your idea into reality.

Through market research, you can discover if your idea is feasible and learn if there is a demand for your product or service. It is critical that thorough market research and analysis be completed prior to starting your business.

The extent of your research will directly impact your ability to succeed, and a lack of research may set you up for failure.



DEVELOPING A BUSINESS PLAN

PLAN YOUR STARTUP

There are several things that need to be considered when starting a business.

Creating a business plan will be essential to starting your business. While developing the business plan, address the following issues:



- Have you chosen a name for your business?
- Have you chosen to operate as sole proprietorship, partnership, or corporation?
- Do you know which licenses and permits you may need to operate your business?
- Do you know the business laws you will have to obey?
- Do you have a lawyer who can advise you and help you with legal paperwork?

ARE YOU AWARE OF THE FOLLOWING CONSIDERATIONS?

- Occupational Safety and Health Administration (OSHA) requirements
- Regulations covering hazardous material
- Local ordinances covering signs, snow removal, etc.
- Federal Tax Code provisions pertaining to small business
- Federal regulations on withholding taxes
- Social Security regulations
- State workers' compensation laws
- The costs of security and insurance in case of fire, theft, etc.
- A suitable building in a location convenient for your customers, as applicable
- Whether or not the building can be modified for your needs at a reasonable cost
- The options to rent or to lease with an option to buy
- The need for a lawyer to check the zoning regulations and lease
- The items you will sell or produce or the service(s) you will provide
- The need for a merchandise plan based on estimated sales to determine the amount of inventory you will need to fulfill demand
- Reliable suppliers who will assist you in the start-up
- The prices, quality, and credit terms of suppliers
- The importance of maintaining complete records of sales income and expenses, accounts payable and receivable
- How to handle payroll records, tax reports, and payments
- The financial reports that must be prepared and how to prepare them

THE BUSINESS PLAN

A business plan is a tool with three basic purposes: communication, management, and planning.

It precisely defines your business, identifies your goals, and serves as your firm's resume.

The importance of a comprehensive, thoughtful business plan cannot be overemphasized. It includes specific and organized information about your company and how you will repay borrowed money. It is a crucial part of any loan application.

- As a communication tool, the business plan is used to attract investment capital and strategic business partners, to secure loans, and to convince workers to hire on.

- As a management tool, the business plan helps you track, monitor, and evaluate your progress.
- As a planning tool, the business plan guides you through the various phases of your business.

What goes into a business plan?

- **Description of the Business**
- **Situational Analysis**
- **Marketing**
- **Management**
- **Finances**

The development of a comprehensive business plan shows whether or not a business has the potential to make a profit. It requires a realistic look at almost every phase of business and allows you to show that you have

worked out all the problems and decided on potential alternatives before actually launching your business. The plan is a living document that you will modify as you gain knowledge and experience.

By using your business plan to establish timelines and milestones, you can gauge your progress and compare your projections to actual accomplishments.

The plan will help identify strengths and opportunities that will work for your benefit as well as roadblocks and obstacles so that you can avoid them and establish alternatives.

Many business owners share their business plans with their employees to foster a broader understanding of where the business is going.

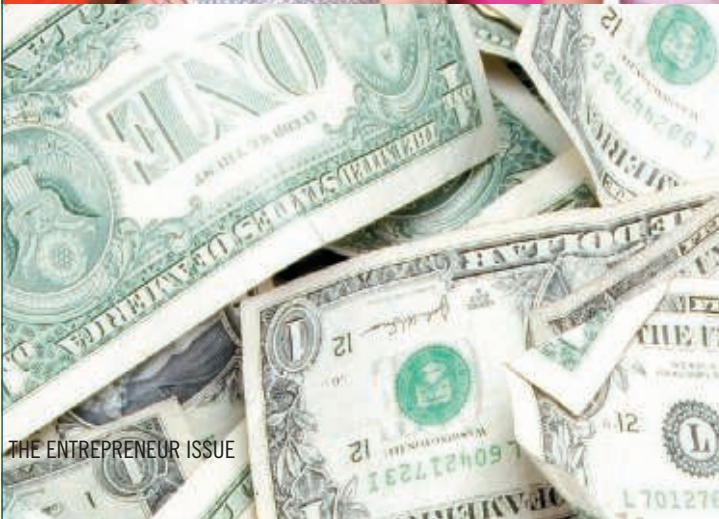


FINANCING A BUSINESS

Unless you are already financially independent, all businesses require some form of outside financing.

An integral component of starting a successful business is raising sufficient capital, but it is not enough to simply have sufficient financing, knowledge and planning are required to manage it properly. Before seeking financing, ask the following questions:

- **How much money do you currently have available?**
- **How much money do you need to start your business?**
- **How do you define your need?**
- **How much money will you need, over what period of time, to stay in business?**



TYPES OF FINANCING

There are two types of financing:

Debt Financing and Equity Financing

Debt Financing is the acquisition of funds by borrowing. In return for lending the money, the individuals or institutions become creditors and receive a promise of repayment of principal and interest on the debt. The interest rate usually reflects the level of risk the creditor is taking by extending the loan. A new business is more likely to be charged a higher interest rate than a well-established business.

Traditionally, banks have been the major source of small business funding, but there are many other sources, including savings and loan institutions, commercial finance companies, and the U.S. Small Business Administration (SBA). In recognition of the positive effects on the economy, state and local governments have developed many programs in recent years to encourage the growth of small businesses.

Equity Financing is the act of raising money by selling common or preferred stock to individual or institutional investors. In return for the money paid, shareholders receive ownership interests in the corporation.

To determine how much money you will need, you must estimate the costs of your business for at least the first several months. Every business is different and has its own specific cash needs at various stages of development. Some businesses can be started on a shoestring budget, while others may require considerable investment in inventory or equipment.

Startup costs occur even before you open your business. To determine your startup costs, you must identify all the expenses that your business will incur during its startup phase. Some of these expenses will be one-time costs, such as the fee for incorporating your business or the price of a sign for your building. Some will be

ongoing, such as the cost of utilities, inventory, insurance, etc. Decide whether the identified costs are essential or optional. A realistic startup budget should include only those things that are necessary to start the business. These essential expenses can then be divided into two separate categories:

Fixed and Variable.

Since every business is different and has its own specific cash needs during different stages of development, there is no universal method for estimating startup costs. The best way to calculate your startup costs is to use a worksheet that lists all the various categories of cost.

Fixed Expenses Include:

- **Rent**
- **Utilities**
- **Administrative**
- **Insurance costs**

Variable Expenses Include:

- **Inventory**
- **Shipping and packaging costs**
- **Sales commissions and other costs associated with the direct sale of a product or service**
- **Utilities**

Finding Capital

Once you have estimated how much money is required to start your business, you must find the money you need. There are several sources to consider when looking for financing. The primary sources of income fall into four categories:

- **Personal savings**
- **Friends and relatives**
- **Banks and credit unions**
- **State and local Governments**

Personal savings is one source of capital for most new businesses. The biggest advantage of using personal savings is the easy access to the funds; there are no loan applications, no lenders to visit, no paperwork to prepare, and no interest payments to make. Other sources of capital could include credit cards, cash value of a life insurance policy, or home equity loans.

Many entrepreneurs look to **friends and relatives** when starting a business venture.

Often, money is loaned interest-free or at a low interest rate. You should prepare a formal agreement with friends and relatives willing to invest money in your business. This will make the relationship professional and prevent misunderstandings in the future. Based on the personal relationship and their impression of your business judgment, friends and relatives may be willing to invest in your business even when others may not.

If you borrow from those close to you, they may expect more involvement in day-to-day operations of the business than you would like. They may feel their investment entitles them to a say in how the business is run, even though you intend to repay the loan. Discuss this and come to a clear understanding at the outset.

Banks are the most common source of funding, but you must prove that your business proposal is sound. This is where a good business plan will help get your loan application approved. Different kinds of banks offer different kinds of loans.

It may be helpful to approach a bank with which you already have a savings or checking account.

For banks outside your area, you may want to consult a bank directory such as Rand McNally's Bankers Directory or Polk's World Bank Directory. Most libraries have copies, and the directories list the name, location, assets, liabilities, and officers of banks.

Credit unions are financial institutions developed by the members or employees of a company, labor union, or other group.

As a result, their interest rates and other terms may be more favorable than those offered by a bank. If your employer or the employer of a family member has a credit union, an application for a loan may have a better chance of approval the individual evaluating your request.

State and local governments have grants and assistance programs available to help small businesses. Business must apply for funding and meet certain eligibility requirements.



THE U.S. SMALL BUSINESS ADMINISTRATION

The U.S. Small Business Administration (SBA) is an independent agency of the federal government that provides financial assistance to aspiring business owners through business loan programs. The SBA seeks to help qualify small businesses for financing when they might not be eligible for business loans through normal lending channels.

The SBA can back a business loan with a guaranty that eliminates some of the risk to the lenders. The SBA also offers programs and support to groups like:

- Women entrepreneurs
- Veterans
- Native Americans
- Minorities

Within its mission to assist the development and growth of small businesses, the SBA has a vast assortment of options, ideas, and programs for entrepreneurs looking to finance a small business.

Applying For a Small Business Loan

You must prepare a written loan proposal. Make your best presentation in the initial loan proposal and application, as you may not get a second chance. Begin your proposal with a cover letter or executive summary. Clearly and briefly explain who you are, your business background, the nature of your business, the amount and purpose of your loan request, your requested terms of repayment, how the funds will benefit your business, and how you will repay the loan. Keep this cover letter simple and direct.

Provide a written description of your business, including the following information:

- Date of Information
- Type of Organization
- Location
- Product or Service
- Brief History
- Proposed Future Operation
- Competitors
- Customers
- Suppliers
- Management Experience
- Personal Financial Statements



MARKETING

To succeed, entrepreneurs must attract and retain a growing base of satisfied customers. Marketing strategies, though widely varied, are all aimed at convincing people to start using, or keep using, particular products or services.

Business owners should carefully plan their marketing strategies and performance to keep their market presence strong and build customer loyalty.

Marketing Plan

Effective marketing, planning, and promotion begin with current information about the marketplace. A marketing plan should include your market research, your location, the customer group you are targeting, your competition, positioning, the product or service you are selling, pricing, advertising, and promoting. Your marketing plan should accomplish the following three tasks.

- **Define your business**
- **Define your customers**
- **Define your plan and budget**

Once you have identified these elements, you can select the type of marketing strategy that will attract your customers. Advertisements, public relations, trade shows, and e-marketing are all tools to help build a customer base. Your marketing strategy should:

- Remind customers and prospects about the benefits of your product or service
- Establish and maintain your distinct identity
- Enhance your reputation
- Encourage existing customers to buy more of what you sell
- Attract new customers and replace lost ones
- Slowly build sales to boost your bottom line
- Promote your business to customers, investors, etc.





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- Training
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- Restoration

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CONCLUSION



Starting a small business is a demanding, yet can be a potentially rewarding, endeavor. You have many options to consider and complicated decisions to make. These decisions require thorough analysis of many areas, from deciding why you want to start a small business to obtaining the necessary financing. There are many resources to help you every step of the way. Use these resources wisely, and you will substantially increase your chances of success.