Ethiopian TVET System

Animal Health Care Service Level -I

Training Module –Learning Guide 64-69

Based on Version 3 March 2018 Occupational Standard (OS)

Unit of Competence: Develop Understanding of Entrepreneurship

Module Title: Developing Understanding of Entrepreneurship

TTLM Code: AGR AHC1 TTLM17 0919V1

October 2019

Module Title: Developing Understanding of Entrepreneurship

TTLM Code: AGR AHC1 TTLM17 0919V1

This module includes the following Learning Guides

LG64: Describe and explain the principles, concepts and scope of entrepreneurship

(LG Code: AGR AHC1 M17 LO1 LG64)

LG65: - Discuss How to Become an Entrepreneur.

(LG Code: AGR AHC1 M17LO2LG65)

LG66: Elaborate how to organize an enterprise.

(LG Code: AGR AHC1 M17LO3LG66)

LG67: Discuss how to operate an enterprise.

(LG Code: AGR AHC1 M17LO4LG67)

LG68: Develop one's own business plan

(LG Code: AGR AHC1 M17LO5LG68

LG69: Develop one's own business plan

(LG Code: AGR AHC1 M17LO5LG69

INSTRUCTION SHEET	Learning Guide 64

This learning guide is developed to equip you with the necessary information regarding the following content coverage and topics –

- Overview of Entrepreneurship
- Identifying forms of enterprise and their classification
- The concept of enterprising , both on personal level and in the context of being enterprising in business
- Functions of entrepreneurship in business and contribution of entrepreneurs in business and economic environment

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

- Overview of Entrepreneurship
- Identify forms of enterprise and their classification
- The concept of enterprising , both on personal level and in the context of being enterprising in business
- Functions of entrepreneurship in business and contribution of entrepreneurs in business and economic environment

Learning Activities

1. Read the specific objectives of this Learning Guide.
2. Read the information written in the “Information Sheets
3. Accomplish the “Self-check”
4. If you earned a satisfactory evaluation proceed to “Information Sheet”. However, if your rating is unsatisfactory, see your teacher for further instructions or go back to Learning Activity #1.

Information Sheet 1	Describe and Explain the Principles, Concepts and Scope of Entrepreneurship

1.1 Defining entrepreneurship and entrepreneurs

Definition of Entrepreneur:

Entrepreneur, just like management, has no single definition. It can be defined from different perspectives. The most important perspectives from which entrepreneur can be defined include the following

- For an Economist
  - Entrepreneur is one who brings resources and assets into combination that makes their value greater than before and is also one who introduces change and new order while contributing to economic development of a nation.
- For a Psychologist
  - Entrepreneur is a person that is typically driven by certain internal forces- need to obtain something, experiment and escape authority of others
- For a Businessman
  - Entrepreneur is either a threat (aggressive competitor) or an ally (source of supply, customer, etc)
- To a Capitalist Philosopher
  - Entrepreneur is one who creates wealth for others, who produces jobs others are glad to get

Definition of Entrepreneurship:

Entrepreneurship, like an entrepreneur, has no single definition. The main difference between entrepreneur and entrepreneurship is their attachment. Entrepreneur is a person while entrepreneurship is a process. When it is put in other way, entrepreneurship is a process undertaken by entrepreneur to augment his/her business interest. Broadly defined

- Entrepreneurship is a dynamic process undertaken by an entrepreneur to create incremental value and wealth by discovering investment opportunities, organizing an enterprise, undertaking risk and economic uncertainty and there by contributing to economic growth. or
- Entrepreneurship is the process of creating something different with value by devoting the necessary time and effort, assuming the accompanying financial, psychic and social risks, and receiving the resulting rewards of monetary and personal satisfaction and independence.

When the first definition is explained in other words, entrepreneurship is a function of seeing investment and production opportunity, organizing an enterprise to undertake a new production process, raising capital, hiring labor, arranging for the supply of raw materials and selecting managers for the day to day operation of an enterprise i.e. through the process of entrepreneurship, entrepreneur organizes an enterprise that is committed to undertake the basic activities essential in making and selling entrepreneur's product.

Entrepreneur →	entrepreneurship →	enterprise
↓	↓	↓
Person	process of action	object

1.1.1 Different forms of enterprise and their classification

People in a community have many interests and different needs and wants. Enterprising men and women are able to identify these needs and wants and establish specific enterprises to satisfy them. Enterprises can provide satisfying rewards for those who successfully establish them. Terms used to classify enterprises include private, public, formal, informal, individual, community, local, foreign, small, large, business, social, manufacturing, and service, consumer goods or industrial goods. Enterprises that succeed, irrespective of their nature, come up with valued approaches to providing solutions to problems, and satisfying the desired needs and wants. The key difference between all types of enterprise lies in the rewards they provide. Business ventures provide profits as rewards, while non-business ventures provide other types of rewards that could be either physical or psychological. Entrepreneurs engage in enterprises depending on what kind of rewards they expect from them.

Classification of Enterprises

- ✓ Private vs. Public
- ✓ Profit vs. Non-profit
- ✓ Formal vs. Informal
- ✓ Individual vs. Community
- ✓ Local vs. Foreign
- ✓ Business vs. Social (non- business)
- ✓ Small vs. Large
- ✓ Manufacturing vs. Service
- ✓ Consumer vs. Industrial

Enterprises in a community have the potential to benefit from each other. Output from one enterprise normally becomes input for other enterprises, and this helps in money circulation among the enterprises within the community. The more money circulates in the community, the more prosperous the community becomes. The synergistic nature of all enterprises in a community creates an environment where there are lots of opportunities to be exploited by enterprising men and women. It is up to these men and women to identify the opportunities available and exploit them. Almost all communities have lots of unexploited opportunities that can create more advantages for everyone. Men and women acquire different skills that lead to different careers. They are applied in trade, services, manufacturing, food processing, recreation, information and communication, and other forms of enterprises. The existence of many types of enterprise in your community offers you opportunities to apply the skills you have acquired.

Differences between Business Enterprises and Non-Business Types of Enterprise

Business enterprises	**Non-Business types of enterprises**
▪ Profits are a primary motive	▪ Various types of human needs are catered for
▪ Products/services must be demanded	▪ Products/services people may want
▪ Products/services are sold in a market	▪ Market situation need not be present
▪ Products/services must be paid in full	▪ Products/services may not necessarily be paid in full

1.2 Meaning and Scope of Enterprising

On a personal level, enterprising can be any identified idea that a person can translate into a planned and satisfactorily implemented activity. In the business sense, enterprising refers to the implementation of a business venture or undertaking. Practically all undertakings can be referred to as enterprising, i.e. idea identification, planning, implementation, successful completion of an activity and receiving the rewards. You are enterprising if you follow the above process whenever you are involved with issues in your life. By understanding the enterprising concept, you can appreciate that all people have the potential to be enterprising. Some people are enterprising when they own a business. Enterprising men and women 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 family, community, place of work and society. By adopting an enterprising approach to your activities, you will know what to do in whatever circumstances you find yourself in. This kind of approach will enable you to appreciate the challenges of life because you will be able to translate challenges into positive results. Enterprising people exhibit the following characteristics:

1.3 Principles &Function of entrepreneurship

By adopting the entrepreneurial approach in thinking and managing activities, both individuals and society are able to accelerate their progress towards a better life because entrepreneurship is the engine of economic development.
Much of the economic activity of a country is based on decisions made in the private sector of the economy. There is a **circular flow** of money spent by CONSUMERS and BUSINESS FIRMS in one direction (output market), and a corresponding flow of goods and services from RESOURCES OWNERS, and BUSINESS FIRMS (input market) in the opposite direction. The above flows show how the INPUT MARKET and the OUTPUT MARKET are joined together to coordinate and determine how resources are used in a basically private enterprise economy. They also show the position of government, which is normally the custodian of the regulations and also referee. Wealth is made available to all when resources are processed into goods and services and successfully sold in the markets.

It is now generally accepted that the private sector is more cost-effective and efficient in performing certain basic economic functions than the public sector. Entrepreneurs play a key role in business and the private sector. Most of the wealth in a society or nation is created by business activity.

1.4 Entrepreneurial motivation

1. Observing the environment.
2. Identifying something one can do and get benefits from.
3. Gathering the necessary physical and psychological tools needed to accomplish the activity.
4. Implementing the activity when ready
5. Receiving rewards.

- ✓ **Entrepreneur initiates the business activity**-He has to start the business activity by preparing a proper plan. The plan should deal with the type of goods or service to be produced, sources of raw material and credit, type of technology to be used, the markets where the products can be sold, etc. The plan should be detailed one covering all the aspects of the business.

- ➢ **The entrepreneuris the prime mover in the business enterprise**.

- ✓ 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

1.5 Setting entrepreneurial goals

- ✓ ***Entrepreneur initiates the business activity****-He has to start the business activity by preparing a proper plan. The plan should deal with the type of goods or service to be produced, sources of raw material and credit, type of technology to be used, the markets where the products can be sold, etc. The plan should be detailed one covering all the aspects of the business.*

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✓ 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.3. Entrepreneur is a decision maker*

- **Business involves variety of decisions to be taken.** The entrepreneur has to decide about the nature of product, technology, price policy, advertisement strategy, employment of labour, etc. A proper strategy has to be adopted by him to take the right decision.

- Entrepreneur co-ordinate things effectively business firm consists of a number of departments. He has to co-ordinate various units effectively by having proper communication channels and supervision.

Self-Check	Written Test

Name: ___________________________ Date: ________________

Directions: Answer all the questions listed below.

1. Define the term *entrepreneur* and *entrepreneurship?*

***Note:* Satisfactory rating – 10 points** **Unsatisfactory - below 10 points**

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

INSTRUCTION SHEET	Learning Guide #65

This learning guide is developed to equip you with the necessary information regarding the following content coverage and topics –

- Assessing own potential to be future entrepreneur
- Basic competencies of successful entrepreneurship
- Entrepreneurial characteristics/traits/
- Knowing risk assessment and their management
- Meaning of self employment
- Self employment versus paid employment

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

- Assess own potential to be future entrepreneur
- Basic competencies of successful entrepreneurship
- Entrepreneurial characteristics/traits/
- Know risk assessment and their management
- Meaning of self employment

Self employment versus paid employment

Learning Activities

1. Read the specific objectives of this Learning Guide.
2. Read the information written in the "Information Sheets-
3. Accomplish the "Self-check"
4. If you earned a satisfactory evaluation proceed to "Information Sheet". However, if your rating is unsatisfactory, see your teacher for further instructions or go back to Learning Activity .

Information Sheet 2	Discuss How to become an Entrepreneur

2.1 **Assessing own potential to be future**

Today, people are becoming entrepreneurs at an alarming rate. The fact that the number of today's entrepreneurs when compared to the figure before ten years is almost quadruple tells too much about the increasing number of entrepreneurs. These days, many people share a dream of becoming entrepreneurs. This shows, there are a lot of factors that push ordinary people to become entrepreneurs. This ranges from the tangible and psychological benefit of putting themselves in the world of entrepreneurship. In brief these factors are:

- *Opportunity:* Chance to be part of a new environment or to be exposed to a new environment and Chance to share the dream of many people
- *Profit:* Fast road to richness
- *Independence:* Not working for others. Some people have a phobia of being a servant of others.
- *Challenge:* To take a risk. People like to take risks to test themselves and to get the happiness after surpassing those risks.

b. Benefits and Drawbacks of being an Entrepreneur

Truly speaking, when most entrepreneurs start operating entrepreneurship, they more presumably start from a scratch. That means at the first glance of living in the world of entrepreneurship, they will only be the owners of small business. Of course, this may be an exception when businesses are inherited from rich parents. But the true adventure of entrepreneurship is observed when businesses start from a scratch or small businesses. That is why we will discuss the general benefits and drawbacks of entrepreneurship from the stand point of small entrepreneurs.

i. Benefit and Opportunity

Pull factor

- *Opportunity to gain control over your own destiny:* owning a business gives the entrepreneur the independence and the opportunity to achieve what is personally important.

- *Opportunity to reach your full potential:* small business is an instrument for self-expression and self-actualization. Many entrepreneurs don't enjoy working for someone else. Nobody limits you because you are independent and there is likely that you have challenging job.

- *Opportunity to reap unlimited profit:* although money is not the primary force driving most entrepreneurs, their ability to keep the money their business earns certainly is a critical factor in their decision to create companies.

- *Opportunity to contribute to the society:* small business owner enjoy the recognition they received from customers whom they have served faithfully over the years.

- *Opportunity to turn previous work experience into business for self and family.*

Push factor

- ✓ Redundancy (unable to recycle a job)
- ✓ Job insecurity or unemployment
- ✓ Disagreement with previous employer

2.1.3 Potential draw backs of being an entrepreneur

- *Uncertainty of income:* the entrepreneur of small business cannot be 100% sure about the level of revenue that he will earn because there could be more powerful competitors
- *Risk of losing entire capital:* Small businesses fail more than any other business type. If they completely fail, their owner looses hi entire capital.
- *Psychological and Social Tensions:* When you run a small business, you question yourself whether it will be successful or not i.e. torturing your psychology. On the other hand, there could be some social out castings. Others may neglect you and even laugh at you when you start your own business because they may feel that you want to be special from them and this results in some social tensions
- *Long hours and hard work:* - opening small business needs a devotion of your entire time. You may work for more than 60 hours per a week.
- *Lower quality of life until the business get established*: Your frequent food and drink can be “shiro” and “water” till your financial power gets more enhanced.
- *Complete responsibility on those issues which you don’t have a complete knowledge.*
- *Tremendous competition:* stiff competition from established businesses can be faced by small business entrepreneurs

2.1.4 Self-potential is assessed to determine if qualified to become future entrepreneur

There are certain characteristics that people should possess or have the potential to develop if they wish to be entrepreneurial. As a group, when measured on various personal characteristics and skills, a number of traits emerge (such as risk-taking ability and leadership) where entrepreneurs differ from non-entrepreneurs. On completing this topic, learners will be able to identify many of the personal characteristics that contribute to starting and operating successfully their own business.

In considering self-employment or setting up a business, as a career option, the learners should be aware of what it takes to become a successful entrepreneur. In order to assess self-potential to determine if qualified to become future entrepreneur: Personal Background, Behavior Patterns and Lifestyle need to be considered.

2.2 Basic competencies of successful entrepreneurship

There are three major competencies for successful entrepreneurship. These may be defined as:

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

2.3 Entrepreneurial Characteristics/ Traits/

The characteristics, nature, feature or qualities of entrepreneur as an individual are essential to contribute to the success of an enterprise. The characteristic of successful entrepreneur as an individual with technical competence, risk taking, high initiative, good judgment, intelligence to analyse and solve problem areas, leadership qualities, confidence, positive attitude high level of energy, creativeness, honesty integrity, emotional stability and fairness.

An entrepreneur should have the firsthand knowledge of the product, process and end users to bring inventive ability and sound judgment of the planned project. Flexibility, good social behaviour, open mind and the desire to take personal responsibilities will fit in the qualities of a true entrepreneur. Let us have a look at some of the characteristics and traits that tried to give answer to our big question: who are entrepreneurs?

2.3.1 Entrepreneurial Characteristics

- *Self-directed (self-disciplined):* Entrepreneurs have independent mind, i.e. mind that is not derived and manipulated by others. Their mind is not pushed by anyone's.

- *Self-nurturing*: Entrepreneurs believe in their ideas even if no one else does

- *Action oriented:* Entrepreneurs have a burning desire of building their dreams in to reality. They understand that business ideas are not enough by themselves unless they are implemented
- Action oriented: Entrepreneurs are emotionally, mentally and physically able to work long and hard.
- Tolerant of Uncertainty: Entrepreneurs have the ability of taking risk and facing uncertainty

✓ Strong mental ability, intelligent, creative and analytical

✓ Clear Objectives (Entrepreneurs chase clear purposes)

✓ Business Secrecy (Ability to guard trade secrets)

✓ Human relation ability (Entrepreneurs display polished behavior while dealing with customers, employees, suppliers, government etc.)

✓ Communication Skill (Entrepreneurs are excellent communicators)

✓ Technical knowledge (Entrepreneurs have sound knowledge about production process and techniques)

- High need for achievement: Every human being possesses three basic needs. These are need for power, need for affiliation and need for achievement and only one is dominant. For entrepreneurs need for achievement is dominant. Entrepreneurs need to be successful in all assignments.
- *High Self determination (Internal locus of control):* Entrepreneurs are quite confident in their ability to perform and succeed which gives rise to external locus of control, i.e. blaming others for failure and take credit for success.
- *Desire for Self independence:* Entrepreneurs act according to their personal vision, analysis and decision-making. They don't want to work under other's influence.
- *Innovative and Action oriented:* Entrepreneurs are always ready (impulsive) to implement their ideas
- *High tolerance for ambiguity:* Entrepreneurs can work under dynamic and uncertain environment
- *Moderate risk takers:* Entrepreneurs are not gamblers (not high risk takers)

2.3.2 Entrepreneurial Traits

Several research studies have been carried out to identify the traits of a true entrepreneur. A distillation form fifty-research studies reveals the following entrepreneurial traits.

- ✓ Capacity to take risk
- ✓ Capacity to work hard
- ✓ Willingness to defer consumption
- ✓ Mobility and drive
- ✓ Creative thinking
- ✓ High degree of ambition
- ✓ Will to conquer and impulse to fight

2.4Risk assessment and their management

2.4.1 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. The essential difference is that entrepreneurs will systematically and thoroughly. In business, as in life, there is clearly no way ofavoiding risk-taking. When you take risks, you discover your own abilitiesand you will become better able to control your own future. You will become more self-assured. You will have a more positive outlook towards risk-taking because you will have faith in your own abilities. You will accept risks as challenges that require yourbest efforts to achieve goals.

- ➢ Risk Management

'Risk management' consists of a systematic process of assessing and then dealing with risk. This is described in more detail in the following diagram. The process entails consideration of the context, followed by identification, analysis, evaluation, and treatment of risks. It is an iterative process that also involves monitoring and review, and can usefully encompass a dialogue with stakeholders along the way.

Risk management provides structured systems for identifying and analysing potential risks, and devising and implementing responses appropriate to their impact. The responses generally draw on strategies of risk prevention, risk transfer, impact mitigation or risk acceptance Within a single activity or proposal, a mix of each of these strategies may have application for different individual risks.

2.5 Meaning of self employment

2.5.1 Understanding self employment

Self-employment is an activity where individuals create their own employment opportunities by creating a business.

Reasons for Wage Employment or Going into Business

A. Economic – to earn more money

B. Psychological – to feel useful and needed

C. Social – to be with people

D. Critical incidents – Shocks

E. Practical reasons – Rational

F. Personal reasons – Emotional

Reasons for Wage Employment or Going into Business

To accommodate:

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. That is, “something to do” in retirement, or to

Provide additional income, or both.

- For supplemental income and equity building, such as in real estate.
- To use as a tax shelter or business write-off.
- To have something to occupy spare time. (To relieve boredom).
- To create a common cause for the whole family, thereby building to getherness.

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.

2.2 Advantages and Constraints of Self-Employment

1. ADVANTAGES OF WORKING FOR YOURSELF

Those who choose self-employment as a career usually do so for five basic reasons: Personal satisfaction, independence, profits, job security and status.

a. Personal satisfaction:

- To some people, the chief reward of working for your self is personal satisfaction. Personal satisfaction means doing what you want with your life. Being self-employed will enable you to spend each work day in a job you enjoy

- You may receive satisfaction from aiding the community in which you live.
- Self-employed persons supply goods and services and create jobs for others.
- They also buy goods and services from other local enterprises, borrow money from local banks, and pay taxes.

b. Independence: Another advantage of being a self-employed person is independence. Independence is freedom from control of others. You are able to use your knowledge, skills and abilities as you see fit. When you are self-employed you are driven by spirit of self-reliance and individual survival.Compared to those who work for others, self-employed persons have more freedom of action**.** They are in charge and can make decisions without first having to get the approval of someone else.

c. Profit and income: One of the major rewards expected when starting a new business is profit. Profit is the amount of income left after all expenses have been paid. Profits go to the owner of a business. Being self-employed, you would be able to control your income. Very often, increased time and effort put into the enterprise results in increased income.

d.Job security: Many enterprises are created by persons who are seeking the kind of job that is not available elsewhere. Job security is the assurance of continued employment and income. Self-employed persons cannot be laid off, fired, or forced to retire at a certain age.

e.Status: Status is a term used to describe a person's social rank or position. Self-employed persons receive attention and recognition through customer contact and public exposure. As a result, they may enjoy status above that of many other types of workers.

f Flexibility: Individuals who become self-employed have options to start enterprises in all categories and sizes depending on their capabilities. Self-employment also gives the individual the job of being an employer and a leader rather than an employee and a follower.

2.6 Self employment versus paid employment

When you start your own business, it is important to consider the difference between the self-employed status and the employee status. The most important differences are set out below.

Risks and freedom A self-employed person works autonomously and enjoys a great deal of freedom. You decide what you do and when you work. But you also carry all the risks. An employee is under contract and exercises his activities in the name of and on behalf of an employer. He works according to the schedule specified in his contract and bears no personal risk.

Costs and expenses As a self-employed person, you have to pay your costs and expenses yourself. You are also responsible for the advance payments of your taxes. On the other hand, your professional expenses are tax deductible. The purchase of a car, rent for an office space, a computer, the social security contributions paid, et cetera., can be deducted as professional expenses. A self-employed person pays social security contributions and taxes on his net taxable income, or in other words, the income after the expenses have been deducted. Costs and expenses are mainly borne by the employer. Your employer also takes care of your advance tax payments, so as an employee, you only receive your net wages. This makes the amount you pay to the government as an income tax less conspicuous. An employee can deduct almost no professional costs.

Social contributions As a self-employed person, you have to become affiliated to a social insurance fund and you are responsible for the payment of your social security (21% of your net taxable income) and thus for building up your social security rights. As an employee, your social status is taken care of for you. Every month, your employer deducts the personal social security contributions (13.07 % of your gross salary) from your wage and transfers this to the National Social Security Office (NSSO). Apart from that, your employer also pays an employers' contribution on your wage (about 35 %).

Child benefit The child benefit for a first child is EUR 92.09. Furthermore, you receive an extra age allowance for the first child. The child benefit system is the same for an employee and a self-employed person.

Maternity leave As a self-employed person, you are entitled to a maximum of 12 weeks' maternity leave (13 weeks for a multiple birth). You receive an allowance of EUR 467,47 per week from your recognised health insurance fund. You can also apply for 105 free service vouchers for assistance with cleaning, for instance. An employee is entitled to 15 weeks' maternity leave for the birth of her child and she receives 82 % of her gross salary the first month after the birth and 75 % of a limited wage as of the second month.

Pension A self-employed person's pension is calculated in the same way as an employee's pension: based on the paid social security contributions and the number of years worked. As a self-employed person, you pay less in social security contributions, so in most cases your pension will be lower than that of an employee. However, aside from the regular pension saving schemes, you can take out a pension saving insurance that is advantageous in terms of taxation, a Voluntary Supplementary Pension for the Self-Employed. An employee pays more social contributions than a self-employed person. Consequently, an employee usually receives a higher pension than a self-employed person.

Illness or accident In case of illness or an accident, a self-employed person does not receive a benefit during the first month. As of the second month of incapacity for work , he receives a flat-rate daily allowance of between EUR 35,16 and EUR 57,29 (depending on the family situation). There is no accident insurance for the self-employed. You can insure your income during a period of incapacity for work by taking out Guaranteed Income insurance. As an employee, you receive a guaranteed income from your employer as of the first day that you are unable to work due to illness or an accident. As of the 31st day, you receive an allowance equal to 60 % of a limited wage from your recognized health insurance fund. In the event of an industrial accident or an occupational illness, an employee receives an allowance through his employer's insurance company for occupational accidents, or through the Fund for Occupational Illnesses.

Unemployment and holidays A self-employed person has no right to paid leave or an unemployment benefit. In the event of bankruptcy, self-employed people can call in a bankruptcy insurance policy. If you go bankrupt, you can receive a bankruptcy allowance for a maximum of 12 months.

Self-Check	Written Test

Name: ___________________________ Date: ________________

Directions: Answer all the questions listed below.

1. List three entrepreneurial characteristics.
2. What are the three major competencies for successful entrepreneurship?

***Note:* Satisfactory rating – 10 points Unsatisfactory - below 10 points**

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

INSTRUCTION SHEET	Learning Guide #66

This learning guide is developed to equip you with the necessary information regarding the following content coverage and topics –

- discussing and correlating to the operations of the economy

- discussing, clarifying and understanding the facts about small and medium enterprises
- identifying and explaining factor in setting up small and medium business of success
- identifying and assessing business opportunities
- identifying and explaining basic types of business ownership
- estimating and distinction amount of money needed to start an enterprise between pre operations and initial operation payments clarified
- identifying advantages and disadvantages of using various sources of capital to start an enterprise

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

- discuss and correlate to the operations of the economy
- discuss, clarify and understand the facts about small and medium enterprises
- identify and explain factor in setting up small and medium business of success
- identify and assessing business opportunities
- identify and explain basic types of business ownership
- estimate and distinction amount of money needed to start an enterprise between pre operations and initial operation payments clarified
  identify advantages and disadvantages of using various sources of capital to start an enterprise

Learning Activities

1.Read the specific objectives of this Learning Guide.

2.Read the information written in the “Information Sheets.

3.Accomplish the “Self-check”

4.If you earned a satisfactory evaluation proceed to “Information Sheet ”. However, if your rating is unsatisfactory, see your teacher for further instructions or go back to Learning Activity #3.

3.1 Importance of entrepreneurship in the society

Once you have decided that starting a business is right for you despite the risks, the question becomes: What's next?

People often love the idea of starting a business but get bogged down in the actual nitty gritty of just how to do it. It might help to know that no matter what type of business you decide to start, the essential steps are the same. Different businesses will have slightly different paths but, *generally speaking*, most businesses follow a formulaic path.

Step 1: Personal Evaluation

You need to begin by taking stock of yourself and your situation in order to figure out which sort of business is best for you.

- Why do you want to start a business? Is it money, freedom, creativity, or some other reason?
- What do you bring to the table? What skills do you have? What industries do you know best?
- Would you want to provide a service or a product? What do you like to do?
- How much capital do you have to risk? Will it be a full-time or a part-time venture? Will you have employees?

The answers to these types of questions will help you narrow your focus and pick a business.

Step 2: Analyse the Industry

Once you decide on a business that fits your goals and lifestyle, you will need to evaluate your idea. Who will buy your product or service? Who will be your competitors?

Step 3: Draft a Business Plan

If you will be seeking outside financing, a business plan is a necessity. But even if you are going to finance the venture yourself, a business plan will help you figure out how much money you will need to get started, what tasks need to be done when, and where you are headed.

Step 4: Make It Legal

There are several ways to form your business. It could be a sole proprietorship, a partnership, or a corporation.

Once you form your business, you also need to get the proper business licenses and permits. Depending on the business, you may have to deal with

Step 5: Get Financed

Depending on the size of your venture, you may need to seek financing from an "angel" or from a venture capital firm. Most small businesses begin with private financing from , personal loans, help from the family, mortgages, savings, etc.

Step 6: Set Up Shop

Find a location. Negotiate leases. Buy inventory. Get the phones installed. Have stationery printed. Hire staff. Set your prices.

Step 7: Trial and Error

It will take a while to figure out what works and what does not. Follow your business plan, but be open and creative.

Advertise! Don't be afraid to make a mistake. And above all, have a ball—running your own business is one of the great joys in life!

One of the important inputs in any economic development of a country is entrepreneurship. More the entrepreneur activity betters the development. Entrepreneurship is the life blood of any economy and it applies more to a developing economy like Ethiopia.

The areas of development are:

- Taking to higher rate of economic growth by creation of value.
- Speed up the process of industrial use of the factors production.
- Creation of employment opportunity
- Dispersal of economic activities to different sectors of the economy and identifying a new venue s of growth.
- Development of backward and tribal areas.
- Better social changes
- Improvement of the standard of living of different weaker section in the society
- Bringing social and political change in the society
- Improve culture of business and expand commercial activities
- Entrepreneurship acts as a change agent to meet the requirement of the change markets and customer preferences.

3.2 Meaning Small and Medium Enterprises

- **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. *"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."*

b. *"Individually owned and operated business"*

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

🗝 **Small Business Statistics and Observations**

1) In most countries UP TO 99% of all businesses are small businesses.
2) OVER 40% of most countries' business employees are employed in small businesses.
3) APPROXIMATELY 40% of the total volume of business in many countries is done by small firms.
4) APPROXIMATELY 75% of new jobs are generated by the small business sector.
5) 50% of small enterprises fail within two years.
6) 60% of the money used to initiate small businesses is generated from private sources, such as personal savings and borrowing from friends.
7) The cost of creating jobs through small businesses is a small fraction of what it takes to create jobs in large enterprises.
8) Small enterprises have the biggest share of employees in retailing, wholesaling and service.
9) Small businesses provide the bulk of sales and employees in certain segments in manufacturing.
10) Poor management is the biggest cause of failure in small businesses.
11) The chance of any new business surviving more than five years is one to four.
12) In almost all countries small business is the natural home of entrepreneurship.

🗝 **Comparatively there are:**

- Large companies
- Medium companies
- small enterprises(formal sole proprietorships,Partnerships and companies)
- micro enterprises(informal)

3.3 The importance and role of small and medium enterprises

business is more likely to succeed if it is based on a product or service that enough customers will buy to generate a profit. For a business to be successful and profitable there must be an adequate market for its products or services. Many small business failures can be traced to this problem of determining a suitable product and market. The enthusiasm of the prospective entrepreneur can often cause him or her to overlook this most basic business concept: “The basic purpose of a business is to satisfy customer needs and wants”. Before starting a business, it is essential to determine whether a market exists for a specific product or service

- ✓ Easy Formation:
- ✓ Low Operating Costs:
- ✓ Social Advantage:

3.4 Key success Factors in setting up small and medium business

Know Your business in depth: - Knowing your industry well can be one of the ways of minimizing the failures of small businesses. Also knowing your business well by preparing documented business mission, objective, strategies and policies is another method.

1. ***Have a Good Relation with Stake Holders:*** personal contact with suppliers' customers, trade association and even competitors is one of the ways to get knowledge.
2. ***Prepare business plan*****: -**a well-written plan is a crucial ingredient for the success of small business. Answering, “what business I am in?” leads to the establishment of goals and objectives. In turn these serve as aids in creating strategies policies and procedures.
3. ***Managing financial resources***: - the first step in managing financial resource is to have adequate start up capital. The most valuable financial resource to small business is cash. You cannot maintain control over a business unless you are not able to judge its financial health.
4. ***Understanding financial statement: -*** to understand what is truly going on in the business you must have at least basic understanding of accounting and finance that would help to recognize the financial position of your business from time to time.
5. ***Learn to manage people effectively: -***every business depends on a foundation of well-trained, motivated employees. You would only do this if you learn how to manage people more effectively.
6. ***Keep in tune with yourself***:-the success of your business will depend on your constant presence and attention and so it is critical. As an entrepreneur you must always physically and mentally fit through adjusting yourself with time.

7. ***Take up short professional courses in management (entrepreneurship***): to improve your managerial skills.
8. ***Be sensitive to your customers:*** your best opportunity lies within your customers. If you lose them, you will be hurt. So as an entrepreneur, don't ever give yourself a chance to disappoint them. The other is be wise in identifying the present and future needs of your customers through the analysis of the changes in their interests.

3.5 Generating business ideas using appropriate tools and techniques

The strategic decision making process for undertaking entrepreneurial venture is comprised of the following fundamental steps.

Step1. Develop a Basic Business Idea

This step calls for identifying the broadest needs and wants of customers that will be a base for the development of product lines and product ranges. The basics of this step is that it is based on the prevailing needs and wants of customers and it consists of the following three sub steps.

a) Creating business idea

It is mainly concerned with generating product ideas that would be profitable if capitalized. It is like identifying opportunities based on the wants and needs of consumers or else it is searching for markets that arise for new products and services.

The ideas are generated from various sources and put for preliminary evaluation and testing.

Idea Generation Methods

Methods to generate new ideas include:

1. **Focus groups:** A group of individuals discuss and provide information in a structured format to arrive at new business ideas. Here a group that is made up of individuals is created as a structured part of the overall organizational hierarchy to obtain new ideas.
2. **Barnstorming:** Is a group method for obtaining new ides and business solutions. This method is extensively used for generating ideas for new product packing and distribution. The groups are organized for sitting together and stimulate greater creativity by exchange of mutual experiences and participating in the discussions. Different group of stakeholders will be organized and think hard to generate ideas. What makes this method different from the former is it may include informal groups that are not part of the organizational structure

3. **Check list:** The new ideas for the business are developed based on discussions on list of related issues. A specific area of discussions is listed by entrepreneur and a list of questions, suggestions and statements are developed for in-depth discussions and arrive at a business idea. For instance if a burning issue in a given time interval turns out to be environmental protection, entrepreneurs may look towards producing a new product that is an ecofriendly. An issue that is meant for discussion can take many forms.
4. **Problem inventory analysis:** It is a method of obtaining new ideas and solutions for business by focusing on the problems. In this case the individual are used similar to focus groups for generating new business ideas. The group discuses category of products. The group is given the problems that are commonly felt by consumers, dealers, transporters and general public and based on the identified problems, product ideas that provide solutions are hallucinated.

b) Study and Process Idea

Once the business ideas are lacerated, study, screening, and testing of these ideas are done based on the entrepreneur's own experience or with the help of experts in the field.

While evaluating the points to be considered are:

Technical feasibility that is the possibility of production with the available skill & technology

Commercial viability of the idea based on cost and profitability. It evaluates the trade-off between cost and income to judge the attractiveness of a business idea

c) Selecting the best idea

After the technical feasibility and commercial viability of a given business idea has been proved, not every business idea represents the best opportunity. Therefore, the prospective entrepreneur performs selection based on the following criterions

- Product where the entrepreneur has firsthand manufacturing experience.
- Product where the entrepreneur has the marketing work experience with the particular product.
- Product which is perceived as highly profitable.
- Product where government has banned imports
- Product where the export demand is high and with good margins.
- The raw material requirement of an existing nearby big unit.
- Products on which government declares subsidy incentives, other industrial/financial benefits.
- Products where there is demand growth.

- Products that are easy to distribute

Step 2: Analysis of Internal and External Environment (SWOT Analysis)

Entrepreneurial environments are critical to the creation of favorable atmosphere to the development of entrepreneurs. Entrepreneurship environment refers to the various facets within which enterprises have to operate in. These entrepreneurial environments are most rationally divided into two major parts: internal and external environment. Analysis of internal and external environment follows after the selection the best business idea. The major objective of this step is to identify the threats and opportunities faced by the prospective entrepreneur in the light of the strengths and weaknesses that are apparent, hence the name SWOT analysis. The two major parts of this step are:

- **Scanning the External Environment**

By and large, entrepreneurship is influenced by environments created by the external forces. These external forces are demarcated as macro and micro environmental forces.

a. Macro – Environment

Macro environment is the type of environment that is not specific to a given entrepreneur or company. It has universal application to all the entrepreneurs in a given country irrespective of the type of entrepreneurs. Macro environmental force more or less include the following environments

- **Economic environment:**
- **Socio-cultural environment:**
- **Political- legal environment:**
- **Technological environment:**

b. Micro - Environment

Micro environmental forces on the other side are forces that are specific to companies or entrepreneurs. It includes forces like customers, suppliers, competitors, intermediaries, etc

- **Sources of Environmental Scanning**

1. Formal Sources: research studies, consultants
2. Secondary Sources: publications, magazines, books
3. Internal Sources: MIS records, co- employees
4. External Sources: marketing intermediaries, customers, suppliers etc

- **Assessing the Internal Environment**

This is the second part of SWOT analysis. It identifies the weaknesses and strengths that are internal in nature. In sensible terms it is assessing the expertise, resources, abilities, skills, costs, organizational structure and culture, manufacturing techniques etc.

Step 3: Developing Feasibility study (DECIDE GO/NO GO)

After weaknesses and strengths have been identified in terms of the prevailing opportunities and threats, feasibility study can be undertaken.

It the basic business idea appears to be a feasible business opportunity, the process should be continued.

Feasibility study should focus on the following:

- **Marketing feasibility:** total demand size, growth rate of market.
- **Technical feasibility:** Technical knowhow of production, cost of acquisition.
- **Physical resource feasibility:** availability of raw materials & suppliers.
- **Financial feasibility:** availability of adequate capital, and cost of funds.
- **Time feasibility:** duration required to operationalize the business & make expected profit.

If feasibility fails, no go is the option.If feasibility test results positive, go is the option.

Step 4: Generating Business Plan

After testing the feasibility of business idea, a business plan is prepared. A business plan transforms the idea in to how it will be applied and projects the likely results to be attained. It leads the transformation of idea into reality. It is used to convince the shareholders & creditors for raising capital.

To be successful, the business plan must begin with the real foundation of any business - the customers. Too often, entrepreneurs fall victim to marketing myopia, concentrating solely on their product or service & waiting for the world to beat a pate to their doors to buy it. Linking the purposeful action of strategic planning to an entrepreneur’s little ideas can produce results that will shape the future.

Specifically, a business plan performs the following activities

- Develops the proposed mission, objectives, Strategies and policies
- Defines the proposed enterprise in terms of its product or service, market characteristics, the entrepreneurial team, the likely BOD
- Specify the market plan, manufacturing plan, financial plan
- Develop performance projections (month wise for at least 3 years)

Let's capitalize on strategies. In business planning, the strategies to be followed in order to overtake the competitors are outlined by entrepreneurs. In this spirit, entrepreneurs may adopt one of the following competitive strategies. There are three types of competitive strategies

- **Cost leadership:** being cost efficient
- **Differentiation:** making your product different, ie superior products
- **Focus:** being sensitive to customers than your competitors

Step 5: Developing Action Plans

No strategic plan is complete until it is put in to action. To make the plan workable, the business owner should divide the plan into projects, carefully defining each one of the following:

- ✓ Purpose:
- ✓ Scope:
- ✓ Contribution:
- ✓ Resource requirements:
- ✓ Timing:

Under this particular step, how strategies are going to be undertaken is specified. Who does it? Why it is done? When it is done? How it is going to done? Is answered. For instance in answering the how and who questions, an entrepreneur tries to focus on the ways of obtaining finances, licenses, raw materials, equipments, recruiting staff, distribution network, construction of plant etc.

Step 6: Implementation and Evaluation

Now it is the time of reality. When action plans are materialized, business plans are considered to be implemented. After implementation follows evaluation. Evaluation is mainly concerning towards making sure the achievement of mission, objectives etc

3.6 Identifying and selecting suitable market for a business

Although most entrepreneurs do not have formal mechanism for identifying business opportunities some sources are: consumers and business associates member of distribution system and technical people. New business opportunity may be the result of technological change, market shift, government regulation, or computation. It is important to understand the cause of the opportunity. Since this factors and the resulting opportunity have a different market size and time dimension

Whether the opportunity is identified with the input from customers, business associates, channel member or technical people; each opportunity must be carefully screened and evaluated. This evaluation of the opportunity is perhaps the most critical element of the entrepreneurial process as it allows the entrepreneur to assess whether the specific product or service has the return needed for the resource required. This evaluation process involve looking at the creation and length of the opportunity, its real and perceived value, its risk and returns, its fit with the personal skills and goals of the entrepreneur, and its differential advantage in competitive environment.

3.6.1 Procedures for Identifying Suitable market for business

A business is more likely to succeed if it is based on a product or service that enough customers will buy to generate a profit. For a business to be successful and profitable there must be an adequate market for its products or services. Many small business failures can be traced to this problem of determining a suitable product and market. The enthusiasm of the prospective entrepreneur can often cause him or her to overlook this most basic business concept: "The basic purpose of a business is to satisfy customer needs and wants". Before starting a business, it is essential to determine whether a market exists for a specific product or service. The purpose of this topic is to discuss the elements of a market and identifycharacteristics that should be known about the customers and the competitors within the market. Market research will give the answer to what market share potential entrepreneurs can expect for the products or services they want to sell. This is particularly important when they plan to start a business because all decisions concerning the amount of space needed for the business, equipment, materials or finished goods to buy, the staff to hire all depend on a realistic estimate of the potential market the business intends to serve.

3.6.2 Market Information

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:

1. People who need or want the product or service.
2. People who are able to buy the product or service.
3. People who are willing to buy the product or service.

Competition must be considered. If competitors 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.

2. What should entrepreneurs know about potential customers?

- ✓ *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.

- ✓ *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.
- ✓ *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.
- ✓ *Know when the customer buys:* By knowing when customers buy (daily, weekly, monthly, yearly, and 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.
- ✓ *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.

4. What is the marketing concept?

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: (a) business policies and activities should be focused on satisfying customer needs, and (b) profitable sales volume is a primary goal.

When applying the marketing concept, a small business should:

a. Determine the needs of their customers (market research);

b. Analyze their competitive advantages (marketing strategy);

c. Select specific markets to serve (target marketing); and

d. Determine how to best satisfy those needs (marketing mix).

5. What is market research?

A small market research program, based on a questionnaire given to present customers and/or prospective customers, can disclose problems and areas of dissatisfaction that can be easily remedied, or new products or services that could be offered successfully. Market research should also identify trends that may affect sales and profitability levels. Population shifts, legal developments and the local economic situation should be monitored to enable early identification of problems and opportunities. Competitor activity also should be monitored;competitors may be entering or leaving the market. For example, it is very useful to know what your competitors' strategies are (i.e. how do they compete?).

6. What is a marketing strategy?

Marketing strategy includes identifying customer groups (target markets) which a small business can serve better than its large competitors, and tailoring its product offers, prices, distribution, promotional efforts and services towards that particular market segment (managing the marketing mix). Ideally the strategy should address customer needs which are not currently being met in the market and which represent adequate potential size and profitability. A small business cannot be all things to all people, so it must analyze its marketand its own capabilities so as to focus on a specific target market.

7. What is target marketing?

Owners of small businesses have limited resources to spend on marketing activities. Concentrating their marketing efforts on one or two key market segments is the basis for their target marketing. The major ways for a business to segment its market are:

- Geographical segmentation: serving the needs of customers in a particular geographical area (for example, a neighborhood shop may send advertisements only to people living within one and a half miles of the shop).
- Customer segmentation: identifying groups of people who are most likely to buy the product. Remember, it is easier and less costly to keep current customers than it is to attract new customers.

8. What is the marketing mix?

The marketing mix is used to describe how entrepreneurs can combine the following four areas into an overall marketing program.

- ***Products and services:***
- ***Promotion:***
- ***Place/distribution:***
- ***Price:***

The nature of the product/service is also important in locational decisions. If purchases are made largely on impulse (e.g., soda or candy), then high traffic and visibility are critical. On the other hand, location is less important for products/services that customers are willing to go out of their way to find (e.g., hotel supplies).

9. How can marketing performance be evaluated?

After key marketing program decisions are made, entrepreneurs need to evaluate their decisions. Standards of performance need to be established so results can be evaluated against them. Sound data on industry norms and past performance provide a basis for comparing present performance. Owners should evaluate their business performance at least quarterly.

The key questions are:

1. Is the business doing all it can to be customer-oriented?
2. Do employees make sure customers' needs are satisfied and leave customers with the feeling that they would enjoy coming back?
3. Can customers find what they want and at a competitive price?

10. 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 orservice 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.

11. 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).

Entrepreneurs need to monitor and be ready for changes in consumer behavior. Entrepreneurs may need to modify or refine their marketing policies and procedures. Predicting changes in the market is an important but difficult task. Market information must be collected and analyzed continually.

Major Factors to consider in selecting a location for a business

Selecting the business location is one of several factors which is vitally important to the success or failure of a small business and is one of the primary initial concerns of the entrepreneur. In many instances, the entrepreneur looks no further than the nearest vacancy sign for the location of the business. Learners should be aware of the required information and necessary skills to make sound decisions regarding the selection of a location for a business. It should be emphasized that although a good location may allow a marginal business to survive, a bad location may spell doom for even the best planned business. There are two basic factors in selecting a location for a business

- ➢ deciding on the particular community and
- ➢ selecting a particular site within that community.

Location is more important for some types of businesses than for others. The right location is very important for retail stores and service businesses. Clothing stores, dry cleaning establishments and service stations all depend on a great deal of customer traffic to survive. These types of businesses must locate near their customers to succeed.

For other types of retail and service businesses and most wholesale businesses, location is not as important in attracting customers. Retail stores that sell high-cost items such as furniture and appliances draw customers to them. Services such as accounting and tax firms and wholesale businesses can be located “off the beaten path” and still have high sales. Customers will spend time searching for the product or service offered by these businesses.

Manufacturing, construction and some of the other services are not interested in attracting customers on the basis of the firm’s location. These types of firms find customers through either personal selling or advertising. The location of these businesses may be selected on the basis of costs, environmental impact, or supply of raw materials.

Economics, population and competition are important factors to consider when selecting a business location. These factors will also help in selecting a promising city or town in which to locate the business

.

3.6.3 General Factors in Selecting a Business Location

1. Economics

A major concern in choosing a community in which to initiate a small business is the economic base of the community. Why do people live in the area? What is their standard of living? Why are other businesses located in the area? A study should be made of the industries in the area. Do 80 per cent of the people work in one industry or very few businesses, or does the community contain a variety of businesses? Is the industry healthy in the area? Is the business activity in the community seasonal?

Are businesses moving in or moving out of the community? You will need to study the effect the responses to these questions will have on your business.

2. Population

Entrepreneurs should identify the groups of people who will be their customers..

3. Competition

You must study your competitors by gathering information on their strengths and weaknesses.

Procedures for Selecting a Specific Location

The following procedures are recommended when selecting a business location:

1. Make a list of factors you feel are "necessary" for considering a business location. Also include a list of factors that would be "desirable" but are not necessary.
2. Find all the possible locations in a community that meet your list of factors.
3. Visit the locations to get an idea of their general appearance and eliminate those locations that are not suitable for your needs. Reduce the number to 2 or 3 locations that appear suitable.
4. Visit the locations again and use a checklist to compare locations against the factors you have identified. Consider the factors that are critical to the success of your business.
5. Return to the locations at various times of the day and evening to get a better understanding of the suitability of each location.
6. Conduct a traffic count at each location. Count the number of cars and pedestrians that pass each location at various times to calculate the number of potential customers.
7. Ask the opinion of experienced consultants and business people in the area to help you decide on one location.
8. Analyze all the facts and opinions you have gathered before making a final decision regarding the location of your business.

3.6.5 Basic Types of Business Ownership are Identified

Business undertakings can be organized as public or private form of ownership. From the point of view of private organization or ownership, there are four forms of organizations for a business unit. It may be organized by an individual as sole proprietorship, by mutual agreement of two or more persons as partnership or by an association of persons who form a cooperative society for specific purpose, or else it may be organized by a number of persons as Joint Stock Company or corporation. The law prescribes a variety of forms of business ownerships the choice of which depends upon size, type and objectives of individual functions and goals critical to the success of the organization formed.

For business purpose, the chief forms of private ownership or organizations are:

1. sole proprietorship

It is a form of business ownership in which a single individual assumes all the risk of operating the business, owns its assets, controls and uses any profit that is made. This form is known also as individual or single proprietorship, sole ownership or individual enterprise.

The individual may run the business alone or take the help of the members of the family or may obtain the assistance of employees. The owner drives the total benefit and assumes the risk to which the business is exposed The salient features of this form of business organization are as follows:

a) Single ownership:
b) Owner- manager:
c) No separate legal entity:
d) Undivided risk:
e) Unlimited liability:

- **Advantages of sole proprietorship:**
  1. Ease and low cost of formation and dissolution:
  2. Direct motivation and personal care:
  3. Freedom and promptness in action:
  4. Business secrecy:
  5. Social desirability:
  6. Absolute control:
  7. Flexibility in operations:
  8. Minimum government control:
  9. Personal touch:.
- **Disadvantages of sole proprietorship:**
  1. Limited resources and size:
  2. Unlimited liability:
  3. Limited managerial skills:
  4. Uncertain future:

2. Partnership

This form of organization represents the second in the evolution of the forms of business organization. It grew essentially to meet the requirements of expanding business which calls for more capital, increased risk, and more managerial ability that were considered as limitations of the individual proprietorship.

In Ethiopian as per the commercial code of 1960, Article 211, reads as, "A partnership agreement is defined as a contract whereby two or more persons who intend to join together, make contribution for the purpose of carrying out activities of an economic nature and of participating in the profit and loses arising out there of if any." From the above definition of partnership, which is almost similar in all countries' regulations, the following general characteristics can be indicated:

a) Plurality of persons:
b) Contractual relationship:
c) Capital contribution:
d) Management:
e) Duration:
f) Unlimited liability:
g) Agency relationship:
h) Utmost good faith & trust:
i) No separate legal entity:
j) Restriction on transfer of interest:
k) Unanimity of consent

❖ **Types of Partnership:**

There are two types of partnership, namely

- General partnership and
- Special partnership

The basic difference between the two is that while the former has unlimited liability and the latter type allow for a limited liability to its partners. Under each category there are other types of partnership as well, which are as under:

- **General partnership:**

In this form, no stipulation is made as to when and how the partnership will come to an end. In the absence of any specific provision in partnership deed about the duration of the partnership, a partner can pull out of the firm after giving certain number of days notice to the firm withdrawing from the partnership or terminating the Deed of Agreement.

- **Special partnership:**

In this form there is at least one partner whose liability is unlimited and one or more partners whose liability is limited to the extent of capital contributed. The duties and obligations of the limited partner are:

✓ The limited partner is not entitled to take an active part in the management of the business and as such cannot bind by his acts.
✓ He cannot withdraw any part of his capital nor can he transfer his interest to others without the consent of the general partner.
✓ The general partner who has unlimited liability need not take the consent of the limited partner to admit a new partner into the business.
✓ The death or insolvency of the limited partner does not affect the business or the limited partnership.

- **Advantage of Partnership**
    1. Ease of organization:
    2. Large financial and managerial resources:
    3. Personal supervision:
    4. Reduced risk:
    5. Flexibility:
    6. Democratic functioning:
    7. Better public relations:
- **Disadvantage of Partnership**
    1. Unlimited liability:
    2. Risk of implied agency:
    3. Lack of harmony:
    4. Lack of continuity:
    5. Non transferability of interest:
    6. Lack of public confidence:

3. Joint stock company (corporation)

A joint stock company is essentially a group of persons coming together voluntarily to carry on certain business by organizing themselves into a single entity with a view to function as an artificial person in the eyes of the law.

Corporation as defined *"an artificial being, invisible, intangible and existing only in contemplation of law being the mere creature of law, it possesses only those properties, which the character/ certificate of incorporation of its creation confers upon it."*

- **Features of Corporation:**
    1. Separate legal entity:
    2. Limited Liability:
    3. Transferability of shares:
    4. Perpetual existence:
    5. Separation of ownership from management:
- **Advantage of Corporation**
    1. Financial Strength:
    2. Limited Liability:
    3. Scope of expansion:
    4. Stability:
    5. Efficient & bolder management:
    6. Diffused Risk:
    7. Public confidence:
- **Disadvantage of Corporation**
    1. Difficulty of Formation:
    2. Lack of owner's personal interest:
    3. Delay in decision making:
    4. Fraudulent management:
    5. Taxation:
    6. Lack of secrecy:
    7. Expensive management:

4. Cooperatives

Cooperative society is a voluntary association of independent, economic units, i.e. farms, business and households to form a business organized, capitalized and managed by its members patrons so as to improve the members' economic positions within the existing system.

As defined by ILO, *"Co-operatives are associations of persons usually with a limited means who have voluntarily joined together to achieve a common economic end through the formation of a democratically controlled business organization, making equitable contributions to the capital required and accepting a fair share of risks and benefits of the undertaking".*

- **Features of Cooperatives:**
  1. Voluntary/ Open membership:
  2. Equality of voting rights:
  3. Democratic control:
  4. Service motto:
  5. Only members subscribe capital for the enterprise:
  6. Registrations & legal status:
  7. Government control:

- **Advantage of Cooperatives**
  1. Democratic Management:
  2. Limited Liability:
  3. Stability & Continuity:
  4. Easy Formation:
  5. Low Operating Costs:
  6. General Reserves:
  7. Exemption & Privileges:
  8. Social Advantage:

- **Disadvantage of Cooperatives**

1. Limited Capital:
2. Lack of Managerial Talent:
3. Lack of Motivation:
4. Delay in decision making and Implementation:
5. Lack of Secrecy and Government Regulations:
6. Limitation of Size:
7. Lack of Public confidence:

3.7 Money needed to start an enterprise

Setting up a business requires a certain amount of money that has to be spent before the business activities can start to generate income though sales. Often potential entrepreneurs underestimate the amount needed because they only take into account the expenditures for investment items such as machines and equipment, cars, and so on. They are not aware that during the first weeks or months of operations (trading, manufacturing or providing services) the sales revenues do not cover the expenditures for running the business. This can lead to a problem of liquidity whereby the entrepreneur cannot pay salaries or suppliers.

The amount needed as start-up capital is generally much higher than the money the future businesswoman or businessman has at her/his disposal.

As the difference has to be found from other resources, it is important to know exactly how much money is needed.

3.7.1 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 payments before the business begins to earn its own income. This money is called start-up capital. It serves two purposes.

3.7.2 Pre-operation payments or investment capital

This means money that a person starting a business will have to pay before his business starts operating. The money needed for these payments is invested in the business as long as the business is operating. Buying land, constructing a workshop, purchasing machinery, tools, equipment office furniture, etc. are all pre-operation payments, as are legal fees, connections for water, electricity and telephone, publicity and advertisement before opening, and so on.

Business starters, are generally aware that they need money for machines, tools or equipment for a shop. However, in particular young 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, the cost for installation of machines and the training of workers to use them can constitute quite a high percentage of the total cost of the machines. Fees for licenses and insurance are also part of investment capital.

3.7.3 **Initial operation payments or working capital**

Initial operation payments 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. In general, in trading activities this period can be less than one month while in manufacturing activities the time span between the starting date of the production (processing time of the product, the time it remains in the distribution system, e.g. store of finished goods in the factory, delivery to wholesalers or retailers or to the customer) and receipt of money in the bank account or cash box can be several months. This money is also invested permanently in the business and is 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.

This is often the case in trading activities; however, the shop owner has to have a stock of goods because she/he cannot replace every article sold immediately. Sometimes customers who place bigger orders ask for credit and payments are not always made on time.

In manufacturing activities, working capital has to cover a longer period that can last several months. 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, or is not able to make bank repayments.

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. The distinction between these two categories of payments depends on the moment when the payments are made: either before the business starts to operate (investment capital) or after it has started (working 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 by: 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.

3.8 Obtaining money to start an enterprises

1. Individual investor as sources of funds: This includes sources as personal savings, funds from friends, relatives & local investors and the sale of capital stock as major sources of funds.
2. Short-term financing: Short-term debt is any debt that will be repaid within one year. The three primary categories of short term debt are:
3. Trade credit: Trade credit is the most widely used source of short term financing for business in which the supplier finances the purchase by giving the buyer 30 days or more to pay. In effect, the buyer obtains financing from supplier rather than from a bank. Two of the most common forms of trade credit are open-book credit (open account) and promissory notes.
4. Open-book credit: It is an informal credit agreement that a buyer makes purchases & pays for them later. It is "open" because the buyer is not required to sign a written repayment agreement in advance.
5. Loans: As important as trade credit may be to a business, a time may come when other sources of short term funding are require. The real business of most banks is lending money to commercial borrowers. The interest on a short term loan may be either fixed (constant-rate) or floating (variable-rate).

- Secured Loans: Secured loans are those that are backed by something of value, known as collateral, which may be seized by the lender should the borrower fail to repay the loan. The three main types of collateral are accounts receivable, inventories, and other property. When a business loan is secured with accounts receivable, its customers' outstanding balances on open book accounts are used as collateral. A less attractive alternative, known as factoring, for most business is to sell accounts receivable to a finance company instead of using them for collateral. Another form called as chattel mortgage, is an agreement where the movable property purchased through the loan belongs to the borrower, although the lender has a legal right to the property if payments are not made as specified in the loan agreement.
- Unsecured Loans: An unsecured loan is one that requires no collateral. Instead the lender relies on the general credit record and the earning power of the

borrower. To increase their returns on such loans and to obtain some protection in case of default, most lenders insist that the borrower maintain some minimum amount of the money in the bank, known as compensating balance, while the loan is outstanding. Although the borrower pays interest on full amount of the loan, a substantial portion of it remains on deposit in the bank. Another important type of unsecured loan that eliminates the negotiate with the bank each time the business needs to borrow, is called the line of credit. However the line of credit does not guarantee that loan will be available. If a firm commitment is required, a revolving line of credit is agreed upon which guarantees that the bank will honor the line of credit up to the stated amount, for an extra fee.

6. Commercial paper: A short-term financing option that has become increasingly popular is to borrow from other business and investors. The company borrowing money issues commercial paper, which represents a promise to pay back a stated amount of money within the stated number of days (legally, 1 to 270 days). The business or investor generally buys commercial paper at a price lower than the face value; then at the end of the period, the buyer receives the face value, the difference of which is the equivalent of the interest on the loan.
7. Long-term financing: One of the basic principles of finance is that long-lived assets are purchased with long terms funds. To finance long term projects such as major construction, acquisition of other companies, research & development, most companies rely on a combination of internal & external funding resources. The four main sources of external funding are loans, leases, bonds & equity.

3.9.1Advantages and disadvantages of using various sources of capital to start an enterprise are identified

Types of financing	Advantages	Disadvantages
➢ Equity financing		
1. *Using personal finance*	1. All of the profit kept. 2. Reduces amount of debt. 3. Risk of loss provides motivation to succeed. 4. Shows good faith to any potential lenders.	1. Chance of loss. 2. May force personal sacrifices. 3. Loss of return from use of savings in other investments.

2. *Involving friends and family*	1. Brings in more cash. 2. May be possible to borrow more. 3. Financial risks shared.	1. Part of profits given up. 2. Part of the ownership given up.
3. *Forming a partnership*	. Easy source of cash. 2. Less pressure and restrictions. 3. Informal arrangements.	1. Risk of destroying personal relations 2. May encourage unwanted
4. *Forming a limited company*	Larger amount of cash raised. 2. Financial risks shared. 3. Legal liability reduced. 4. Tax savings.	. Part of profits given up. 2. Share of control and ownership given up.
5. *Forming a cooperative*	1. Poor people are able to combine financial resources. 2. Financial risks shared.	1. Profits shared. 2. Financial decision-making Shared
6. *Working with financial*	1. Set up to help small businesses.	1. Favors expanding Businesses

institutions	2. Provides loans.	
➢ **Debt Financing**		
All forms of borrowing	1. Relatively easy to obtain. 2. Control and ownership of the business maintained. 3. Can be repaid at more advantageous time. 4. May save money. 5. Costs may be tax deductible. 6. Inflation allows repayment with cheaper money.	1. High interest costs. 2. Risk that future profits will not cover repayment. 3. Easy to abuse and overuse. 4. Financial and confidential information must be 5. Lender may impose limitations or restrictions on borrower.

Self-Check	Written Test

Name: ________________________ Date: ______________

Directions: Answer all the questions listed below.

1. What are key success factor in setting up small andmedium business?
2. Identified Advantages and disadvantages of using various sources of capital to start an enterprise?

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

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

INSTRUCTION SHEET	Learning Guide #67

This learning guide is developed to equip you with the necessary information regarding the following content coverage and topics –

- identifyingand understanding disadvantages and advantages of three alternative means of becoming an entrepreneur
- discussing and explaining process hire and manage people
- discussing and understanding importance and techniques of managing time The techniques and procedures of managing sales are discussing and explaining
- Identifying and discussingfactors to consider in selecting suppliers and the steps to follow when doing business with them
- developing awareness of how new technologies can affect small and medium business
- identifying and explaining characteristics of appropriate technology for use in small and medium business
- discussing and understanding different types of cost that occur in a business and how to manage them Factors and procedures in knowing the cost of the enterprise are discussed and understood
- explaining and understanding importance of financial record keeping and preparing simple financial statement
- discussing application of self-management skills and negotiation skills in operating a business
- performing risk assessment and management of business enterprise

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

- identifyand understand disadvantages and advantages of three alternative means of becoming an entrepreneur
- discuss and explain process hire and manage people
- discuss and understand importance and techniques of managing time The techniques and procedures of managing sales are discussing and explaining
- Identify and discussfactors to consider in selecting suppliers and the steps to follow when doing business with them
- developing awareness of how new technologies can affect small and medium business
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- discuss and understand different types of cost that occur in a business and how to manage them Factors and procedures in knowing the cost of the enterprise are discussed and understood
- explain and understand importance of financial record keeping and preparing

simple financial statement

- discuss application of self-management skills and negotiation skills in operating a business
- perform risk assessment and management of business enterprise

Learning Activities

1.Read the specific objectives of this Learning Guide.

2.Read the information written in the "Information Sheets-4

3.Accomplish the "Self-check"

4.If you earned a satisfactory evaluation proceed to "Information Sheet 5". However, if your rating is unsatisfactory, see your teacher for further instructions or go back to Learning Activity #4.

4.1Identifying ways of getting into business

Entrepreneurs may have the option of starting a new business, buying an existing business or becoming a franchisee. Learners should know the advantages and disadvantages of these three alternative means of becoming an entrepreneur.

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:

Advantages

- ✓ A successful firm can provide immediate returns
- ✓ Existing firm comes with an advantage of good location, working staff, established supplied of raw materials, distribution network installed machineries and inventories etc.
- ✓ Advice can be sought from previous owners on the strength and weaknesses of the firm
- ✓ Low cost of organization when it is specially compared to starting a new venture.

Disadvantages

- ✓ Ill reputation of previous owner may be faced if the previous entrepreneur is not well established or don’t possess a good will.
- ✓ Poor staff, obsolete machineries and layout can trouble entrepreneur.
- ✓ Buyout costs are usually high.

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. This approach gives the potential owner a great deal of satisfaction. It also means taking a relatively high risk compared to buying an established business.

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.

Advantage:

- ✓ The business is created as per entrepreneurs planning and being a new venture; there is no compromise on entrepreneurial dreams or plans.
- ✓ Owner (entrepreneur) doesn't inherit the ill will of previous organization.
- ✓ If a business idea is unique, this is the only viable option

Disadvantage:

- ✓ High cost of equipment & organization
- ✓ Lack of source of genuine advice since there is no past records
- ✓ It may saturate the existing market
- ✓ Lack of recognition.

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.

Franchise: It is the right and license to sell a product or service and possibly the entire business system developed by another company in return of a royalty and conformity to a standard operating procedure. It is an intellectual property which is sold in return of royalty.

Franchisor: is usually the manufacturer or sole distributor of a trademarked product or service who has a considerable experience in that business. Eg owners of Kodak, Pepsi, etc

Franchisee: is an individual entrepreneur who purchases the franchise in return for royalty and conformance to standard operation and who in the process gets the opportunity to enter an established entrepreneur.

Types of Franchising

a) *Trade name franchising:* franchisee gets only the right to use trade name of franchiser.

b) *Product distribution franchising:* Right to use name as well as selected products of franchiser.

c) *Pure/Comprehending franchising:* Right to use entire business of the franchiser.

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.

Advantages for franchiser

- ✓ Expanding the existing business network at low investment or limited capital
- ✓ Company growth with minimum risk without expanding the HR and other facilities
- ✓ Regular income from royalty (5%)

Advantages for franchisee

- ✓ Gets advantage already established brand name
- ✓ Easy to establish business using well developed system
- ✓ Initial financial assistance.
- ✓ Opportunity to marketing training and counselling
- ✓ Greater chance of success

Disadvantages to the Franchiser

- ✓ Absolute control cannot be exercised
- ✓ Physical separation

Disadvantages to the Franchisee

- ✓ Sharing profits in terms of royalty is mandatory
- ✓ Strict adherence to standard operating procedures or limited freedom
- ✓ Restriction on buying other's product

4.1.1 Process of hiring and managing people

The greatest asset of a business is not its building, its equipment, its inventory or accounts receivable. It is the employees. Hiring the right person for the right job will pay good dividends, not only in terms of money but also in establishing a stable and loyal group of employees by providing decent working conditions.

The objective of most organizations is the efficient production of goods or efficient performance of service while providing personal satisfaction to their employees. These objectives can best be achieved through the efficient uses of organization's human resources, along with its financial and physical assets. More adequate supply of physical and financial resources does not alone ensure the economic development of an organization. These resources are useless unless until there is efficient manpower is available in the organization to use these resources. Hence, the need exists for an adequate supply of capable human resources in the form of well-educated, developed and motivated personnel.

Basically Human Resource Management is a modern term for what has traditionally been referred to as personnel management. The term Human Resources at the organizational level includes all the component resources of all employees from the rank and file to top management level. In short it includes the resources of all the people who contribute their services to the attainment of the organizational goals.

In today's world of global competition the focus is more on human resources since it is universally recognized that the most significant resource of any organization is its people. Human Resource management is now recognized as an essential management activity capable of contributing substantially to the success/effectiveness of any organization.

Objectives of Human Resource Management

1. Effective utilization of human resources in the achievement of organizational goals.
2. Establishment and maintenance of an adequate organizational structure and desirable working relationships among all members of the organization.
3. Securing integration of the individual and informal groups within the organization, and thereby their commitment, involvement and loyalty.
4. Recognition and satisfaction of individual needs and group goals.
5. Provision of maximum opportunities for individual development and advancement.

6. Maintenance of High morale of the employees in the organization.
7. Continuous strengthening and appreciation of human assets.
8. The continuity of the organization.

Human Resource Manager performs a number of functions and sub functions for the achievement of the objectives mentioned above. These functions broadly fall under five classifications:

i) Employment

ii) Wage and salary administration

iii) Industrial relations

iv) Organizational planning and development

v) Employee services

4.2 managing time

Time is something that cannot be saved. You simply lose more and more of it as the day progresses. By the end of the day, there is none left to use! All entrepreneurs need to manage time effectively, and the key to using time effectively is through better time management. By budgeting time, entrepreneurs will achieve better results. Specific ways to make better use

of time include: establishing goals; determining deadlines; allocating time for each important activity. Creativity, problem-solving and opportunity seeking are the hallmarks of entrepreneurs. They must therefore set aside time for activities of this kind (all other duties should be given lower priority and be carried out later). Time must be used effectively to accomplish those things entrepreneurs believe are most important. There is no choice as to

Whether or not to save or spend time! Time is one of the entrepreneur's greatest assets. The main concern of this topic is to identify techniques for spending time effectively.

4.2.1 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.

1. *Identify specific daily goals.*
2. *Avoid interruptions and distractions.*
3. *Self-motivation.*

4. *Establish deadlines.*
5. *Use the telephone*
6. *Take notes.*
7. *Don't do everything.*
8. *Work in blocks of time.*

4.3 managing sales

It takes more than a great product or service to make a successful business. It takes customers to buy that product or service. They will only buy if the features of the products offered can be turned into customer benefits.

Successful selling depends on the entrepreneur's ability to:

a. Attract the buyer's attention.
b. Determine customers' needs, wants, problems and goals.
c. Show how the product or service will satisfy those needs.
d. Work out the problems that prevent customers from buying.
e. 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

Sales persons 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.

✓ 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.
- A business is not doing potential customers a favor by serving them – they are doing a favour to the business by allowing it to fulfil that function.
- Potential customers are not just statistics, they are human beings who have feelings and emotions like everyone else.
- Potential customers are not people with whom to match wits. Nobody wins an argument with a potential customer.

- Potential customers are people who have wants and needs. It is the job of a business to cater for them.

✓ Selling Requires Communication

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

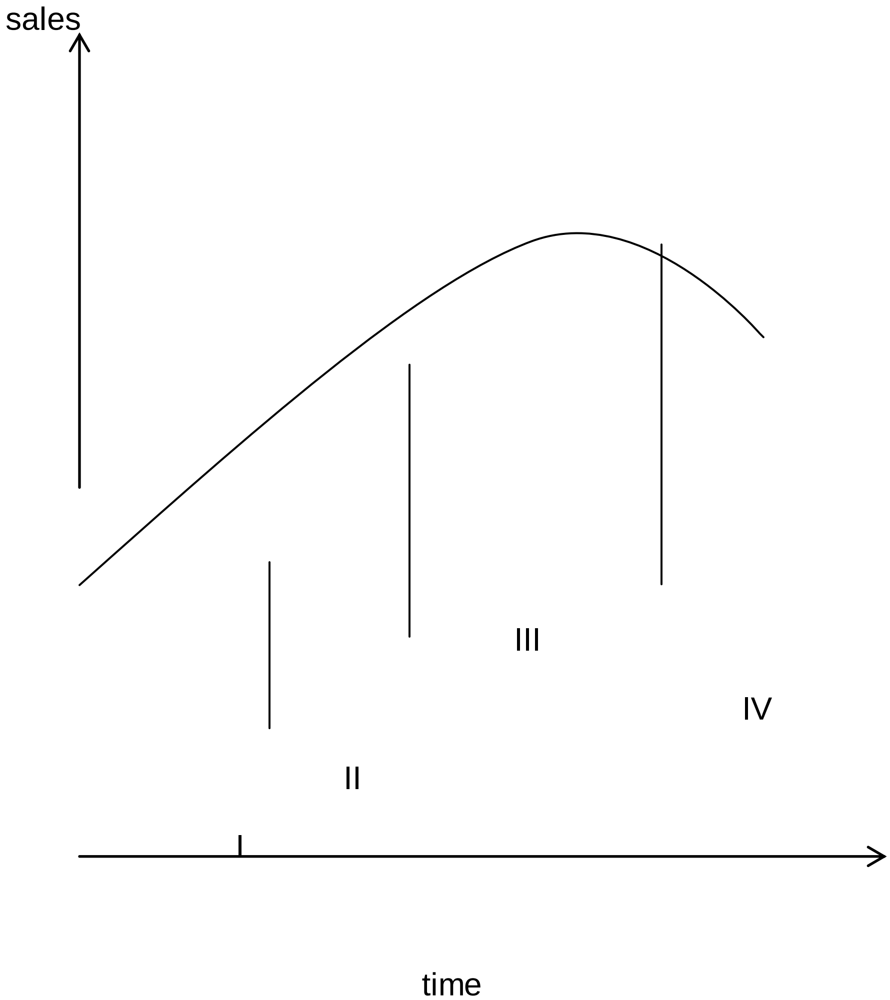
*Step 5***:**negotiate terms and conditions of the sale

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.

4.3.1 The Product Life Cycle

A new product progresses through a sequence of stages from introduction to growth, maturity, and decline. 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.



I. **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.

II. **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

III. Maturity stage

At maturity, 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

IV. Decline stage

As sales decline the entrepreneur has different options

- Maintain the product by adding new features
- Reduce costs and prices and continue to offer the product
- Stop producing the product.

4.4 selecting suppliers

Suppliers are important to entrepreneurs because they provide a variety of services to businesses. Suppliers often sell their products to businesses on credit. The business can buy small quantities of products on the basis of their needs, so the business does not have money tied up in inventory. Suppliers can give advice on technical matters, market trends and new products. The entrepreneur should select suppliers who offer low prices, give the most helpful advice, provide prompt delivery of goods, and are sympathetic in their financial dealings with entrepreneurs. 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.

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.

For example: Does the supplier usually deliver on time? Does the supplier accept returned goods or materials? How responsible is the supplier for the quality of goods or materials? Is the supplier honest in conducting business?

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?

Note: Make sure that the supplier provides a response to your questions in writing.

Ask for a written quotation. If there are any disagreements between you and your suppliers at a later date, a written quotation makes them easier to resolve.

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 a written 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.

Some suppliers send an invoice instead of a delivery note. Check the goods against the invoice. If you yourself collect the goods or materials from the supplier, the type and quality should be checked before taking them away.

Check the delivery note or invoice against your order. Check that everything ordered has been received on time. If there is something wrong, notify the supplier immediately. Do not sign the delivery note or pay for the goods until the problem has been resolved.

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. The list of goods or materials must be the same on both. Make sure that you have received everything you are asked to pay for and that the prices and totals are correct. If the invoice is not correct, notify the supplier immediately and determine the best way to solve the problem.

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

4.5Using technologies in small and medium businesses

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.

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.

4.5.1 Characteristics of appropriate technology for use in small 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:
2. effectiveness*:*
3. availability:
4. flexibility:
5. durable:
6. efficient:
7. cost-effective

4.6 Knowing business costs and their management

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.

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 reduce the costs. • There are different types of costs and knowing these costs will allow a better control and keep the costs low.

4.6.1 Direct and Indirect Costs

Every business generates costs even if there are no ongoing production, service or trading activities. To understand this, it is essential to know that there are direct costs and indirect costs.

1. **Direct costs:**are those that only occur 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.

Direct costs are composed of two cost sub-groups:

Direct material costs:	**Direct labour 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 from the supplier to the enterprise are included in the direct 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 any different items.

2. Indirect costs: are all other costs generated from business activities that are not direct costs.

These 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.

In wholesale or retail business all staff costs are indirect costs. To be able to calculate the manufacturing costs of one single product or one single service, the indirect costs have to be attributed proportionally. If the business produces a single product or service, or if the products are quite similar, for example chairs, beds, trousers or shirts, the indirect costs are divided by the number of products and this proportion is added to the direct costs to calculate the total cost per unit of an item. In a service business the indirect costs are generally calculated on the basis of working hours and added to the time spent in delivering the service.

Indirect costs are also called overhead costs.

To make the distinction between direct costs and indirect costs is not always easy, for example the glue used in furniture making. The quantity used for one chair is so small that it represents only a very small portion of the price of the glue. The expenditure for a pot of glue is therefore considered as an indirect cost. Also, if a helper serves several workers, his/her salary cannot be attributed to one single product. The salary will therefore be counted as an indirect cost.

4.6.2 Factors and procedures in knowing the cost of the enterprise

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

4.10 Importance of financial recordkeeping and preparing simple financial statements

i. Why keep records?

A. The law requires that some form of written records be kept by all businesses.

B. Adequate records can answer the following questions:
- How much profit is the business making?
- How much is the business worth?
- How much do credit customers owe the business?
- How much does the business owe its creditors?
- How much tax should the business pay?

ii. How can a record keeping system be established?

A. Before establishing an adequate record keeping system, the assistance of an accountant should be obtained. If the owner cannot afford an accountant, he or she cannot afford to be in business.

B. An accountant can establish a suitable recording system tailored to the needs of a particular business.

iii. What will others want to know about the finances of a business?

Various people will want to know about the financial conditions of a business. Bankers may be interested because you have applied for a financial loan. Tax collectors are interested in your business condition, as are partners, relatives and others who may have lent you money. Suppliers will also want to know things about the finances of your firm, because when they ship you merchandise for which you have not yet paid, it is as though they are extending a form of credit. Specific questions they might ask include:

- How much do you own, how much do you owe, and how much are you worth?
- What was your income last year?
- How much of your sales are for cash and how much are for credit?
- What has been your collection record?
- What is your total “overhead” and what percentage of gross sales does it represent?
- What expenses do you have?
- What is the present value of buildings, equipment, vehicles, fixtures and other accessories?

- What items of inventory are the best and worst sellers?
- What are the most profitable and least profitable departments?
- Are you taking full advantage of cash discounts, trade discounts, and advertising and merchandising allowances?

iv. What kinds of records should a small business keep?

- Payroll.
- Cash Balance.
- Accounts Receivable.
- Accounts Payable.
- Inventory Records.
- Government Requirements.
- Financial Statement.

v. Who should be responsible for keeping the financial records?

- Keeping the records yourself.

Assigning an assistant.

- Hiring a full-time bookkeeper.
- Contracting the service out
- Accounting department.

4.7 Financial record keeping and preparing financial statement

Self-management skills affect the extent our goals can be achieved. The purpose of this topic is to show the importance of managing one's self effectively. Knowing the importance of self-management is the first step in understanding one's personal strengths. The next step is to be able to use some general principles to assist in the self-management process.

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. Most entrepreneurs do the important task first when their energy level is high. If time is available at the end of the day, the low priority tasks are completed.

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. As a general rule, if a worker can do the task almost as well as the entrepreneur, then the task should be delegated to an employee.
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. Frequent callers can also be informed of the
best time to call you.

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. Instead of being honest and saying "no"
   to the request, the tendency is to end up accepting a responsibility you neither want
   nor have time to perform. Saying "no" takes courage and tact.

7. **Have Daily Objectives.**

   Those entrepreneurs who accomplish the most during the day know exactly what they
   want to accomplish. 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. Without objectives, entrepreneurs become ineffective.

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.

Some people say they don't have time to plan. These individuals may be very busy,
but they probably are not very effective. By taking time to plan, you will actually save

time. Develop a daily “TO DO” list for doing the essential tasks that must be completed in the available time.

10. Be Proactive.

Don’t avoid making decisions. Reducing the amount of time you use to make decision can substantially increase the amount of time available to you.

- **Negotiation skill**

Negotiating involves working with the leader to adjust assignments or work load; it means organizing situations for group advantage. Frequent symptoms of problems in negotiating include: Testing for loop-holes in policy administration; controlling production; negative feedback on pay; stockpiling materials; holding back a supply of finished work to balance out times of lower productivity.

3.7.4 Risk assessment and management of business enterprise

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 Situatin**

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. For example, you have a secure job, earning a good salary, with promotion probably every two years. You may have the opportunity to buy a firm whose future is uncertain, but the owner’s earnings are 50% more than you are currently earning as an employee. The firm may continue to be very successful, or it may fail in one or two years. Your choice is between staying in a secure position with moderate, predictable financial and career

rewards, or taking a risk and possibly achieving very high financial and career rewards. Most people would not think of taking such a risk, regardless of the probabilities of success. They would prefer to stay in a secure position. Others are impatient, dissatisfied with their present position, and looking for the “magic pot of gold” to make them rich. These people tend to be influenced by the size of the potential reward offered. They pay little regard to the probability of success, and do not give much thought to the degree of effort required on their part. Attracted by hopes of high returns with little effort, they become gamblers.

- **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. The essential difference is that entrepreneurs will systematically and thoroughly. In business, as in life, there is clearly no way ofavoiding risk-taking. When you take risks, you discover your own abilitiesand you will become better able to control your own future. You will become more self-assured. You will have a more positive outlook towards risk-taking because you will have faith in your own abilities. You will accept risks as challenges that require your best efforts to achieve goals.

- **Risk Management**

‘Risk management’ consists of a systematic process of assessing and then dealing with risk. This is described in more detail in the following diagram. The process entails consideration of the context, followed by identification, analysis, evaluation, and treatment of risks. It is an iterative process that also involves monitoring and review, and can usefully encompass a dialogue with stakeholders along the way.

Risk management provides structured systems for identifying and analysing potential risks, and devising and implementing responses appropriate to their impact. The responses generally draw on strategies of risk prevention, risk transfer, impact mitigation or risk acceptance Within a single activity or proposal, a mix of each of these strategies may have application for different individual risks.

Self-Check	Written Test

Name: _________________________ Date: _______________

Directions: Answer all the questions listed below.

1. Discuss the importance and techniques of managing time?
2. Write Importance of financial record keeping and preparing simple financial statement?

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

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

INSTRUCTION SHEET	Learning Guide #68

This learning guide is developed to equip you with the necessary information regarding the following content coverage and topics –

- discussing and applying Process of preparing/ writing a business plan
- applying standard structure and format are applied in preparing business plan
- interpreting, assessing and analyzing findings of the business plan
- clear and understandable feasibility of the business idea
- identifying and understanding problems that may arise or encounter when starting a business
- Discussing and understanding techniques and procedures in obtaining and sourcing information.

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

- discuss and apply Process of preparing/ writing a business plan
- apply Standard structure and format are applied in preparing business plan
- interpret, asses and analyze findings of the business plan
- clear and understandable feasibility of the business idea
- identify and understandproblems that may arise or encounter when starting a business
- discuss and understand techniques and procedures in obtaining and sourcing information.

Learning Activities

1. Read the specific objectives of this Learning Guide.
2. Read the information written in the “Information Sheets
3. Accomplish the “Self-check”
4. If you earned a satisfactory evaluation proceed to “next module”. However, if your rating is unsatisfactory, see your teacher for further instructions or go back to Learning Activity.

Information Sheet	Develop one's own business plan

5.1. Meaning and concepts of business plan

What is a Business Plan? A business plan is a blueprint of your company, presented in standard business format that is logical and well documented. A good business plan is also:

5.2 The reason for preparing a business plan

- A strategic vision of your company
- Your most important communication tool
- A document to obtain working capital and/or investments
- A tool for planning, measuring and improving performance
- A basis for sound decision-making
- A way to motivate employees

5.3 Process of preparing/ writing a business plan

Whether you are writing your business plan for the first time or rewriting it for the twentieth, there are certain steps you can follow in order to make the process easier.

- Step- 1. Identify your objectives. The first step in preparing your business plan is to determine who your audience is going to be and what they want to know about your company. Then, you must determine what you want your audience to know. What are the areas you want to emphasize? What are the ones you want to downplay or eliminate? Once you have resolved any conflicts between these two viewpoints, you are ready to move to Step 2.

- Step- 2. Outline your business plan. Now that you have identified your objectives, you can begin preparing an outline of your business plan based on these special requirements. An outline can be as general or as specific as you would like. However, the more specific it is, the easier the writing process will be.

- Step- 3. Review your outline. The next step is to review your outline. Based on your readers and your objectives, identify the areas that should be presented in detail or summary form in your business plan. Remember that your business plan should maintain a fairly high-level focus. Any detail information can be included in the appendix section of your business plan or on a request basis.

- Step- 4. Write your plan. Depending on the age of your business and your experience in writing business plans, the order in which you develop the specific elements of your business plan will vary.
    - Gather information.
    - Prepare drafts.
    - Write summary.
- Step- 5. Have your plan reviewed.

Since it is often difficult to be critical of your own creation, you will want to have someone who is familiar with the planning process and business management review your business plan for completeness, logic, effectiveness as a communication tool, and presentation. Then, make any necessary revisions based on the person's comments.

Remember that it is important to update your business plan on a regular basis or it will become useless.

5.4 Standard structure and format of a business plan

Every Successful business plan should include something about each of the following areas since these are what make up **the essential elements of a good business plan:**

- Executive Summary
- Market Analysis
- Company Description
- Organization & Management
- Marketing & Sales Strategies
- Service or Product Line
- Funding Request
- Financials
- Appendix

➢ **Part 1: The Executive Summary**

The Executive Summary is the most important section of your business plan. It provides a concise overview of the entire plan along with a history of your company. This section tells your reader where your company is and where you want to take it. It's the first thing your readers see. Therefore, it is the thing that will either grab their interest and make them want to keep reading . . . or make them want to put it down and forget about it.

More than anything else, this section is important because **it tells the reader "why"you think your business idea will be Successful.**

The Executive Summary should be the last section you write. After you've worked out all the details of your business plan, you'll be in a better position to summarize it. And it should be a summary (ie, no more than 4 pages!).

Contents of the Executive Summary

- The Mission Statement.
- Date business began
- Names of founders and the functions they perform
- Number of employees
- Location of business and any branches or subsidiaries
- Description of plant or facilities
- Products manufactured/services rendered
- Banking relationships and information regarding current investors
- Summary of company growth including financial or market highlights
- Summary of management's future plans

➢ **Part 2: Market Analysis**

The Market Analysis section should illustrate your knowledge about the particular industry your business is in. It should also present general highlights and conclusions of any marketing research data you have collected. However, the specific details of your marketing research studies should be moved to the appendix section of your business plan.

This section should include: an industry description and outlook; target market information; market test results; lead times; and an evaluation of your competition.

Your target market is simply the market (or group of customers) that you want to target (or focus on and sell to). When you are defining your target market, it is important to narrow it to a manageable size. Many businesses make the mistake of trying to be everything to everybody. Often times, this philosophy leads to failure.

In this section, you should gather information which identifies the:

- Distinguishing characteristics of the major/primary market you are targeting.

- Size of the primary target market.

- The extent to which you feel you will be able to gain market share and the reasons why.
- Your pricing and gross margin targets.
- Resources for finding information related to your target market.
- Media you will use to reach your target audience.
- Purchasing cycle of your potential customers.
- Trends and potential changes
- Key characteristics of your secondary markets.

Under this part Market Tests, Regulatory Restrictions,CompetitiveAnalysis,and Lead Times are also included.

- **Part 3: Company Description**

Without going into detail, this section should include a high level look at how all of the different elements of your business fit together. The Company Description section should include information about the nature of your business as well as list the primary factors that you believe will make your business a success.

When defining the nature of your business (or "why" you're in business), be sure to list the marketplace needs that you are trying to satisfy and include the ways in which you plan to satisfy these needs using your products or services. Finally, list the specific individuals and/or organizations that you have identified as having these needs.

Primary success factors might include a superior ability to satisfy your customers' needs, highly efficient methods of delivering your product or service, outstanding personnel, or a key location. Each of these would give your business a competitive advantage.

- **Part 4: Organization & Management**

This section should include: your company's organizational structure; details about the ownership of your company; profiles of your management team; and the qualifications of your board of directors.

Who does what in your business? What is their background and why are you bringing them into the business as board members or employees? What are they responsible for? These may seem like unnecessary questions to answer in a one or two person organization, but the people reading your business plan want to know who's in charge. So tell them. Give a detailed description of each division or department and its function.

This section should include who's on the board (if you have an advisory board) and how you intend to keep them there. What kind of salary and benefits package do you have for your people? What incentives are you offering? How about promotions? Reassure your reader that the people you have on staff are more than just names on a letterhead. Under this partOrganizationalStructure,OwnershipInformation,andManagement Profiles are included.

- **Part 5: Marketing and Sales Strategies**

Marketing is the process of creating customers . . . and customers are the lifeblood of your business. In this section, the first thing you want to do is define your marketing strategy. There is no single "right" way to approach a marketing strategy. Your marketing strategy should be part of an ongoing self-evaluation process, and unique to your company. However, there are steps you can follow which will help you "think through" the strategy you would like to use.

An Overall Marketing Strategy would include a:

- Market penetration strategy
- Strategy for growing your business.
- Channels of distribution strategy.
- Communication strategy.

How do you plan to actually sell your product?

Your Overall Sales Strategy should include:

- A sales force strategy

- Your sales activities.

- **Part 6: Service or Product Line**

What are you selling? In this section, you describe your service or product emphasizing the benefits to potential and current customers. For example, don't tell your readers which 89 foods you carry in your "Gourmet to Go" shop. Tell them why busy, two-career couples will prefer shopping in a service-oriented store that records clients' food preferences, and caters even the smallest parties on short notice.

Overall, this section should include:

- A detailed description of your product or service (from your customers' perspective).
- Information related to your product's life cycle.
- Any copyright, patent, and trade secret information that may be relevant.
- Research and development activities you are involved in or are planning to be involved in.

➢ **Part 7: Funding Request**

In this section, you will request the amount of funding you will need to start or expand your business. If necessary, you can include different funding scenarios such as a best and worst case scenario. But remember that, later, in the financial section, you must be able to back up these requests and scenarios with corresponding financial statements.

You will want to include the following in this section: your current funding requirement; your future funding requirements over the next five years; how you will use the funds you receive; and any long-range financial strategies that you are planning that would have any type of impact on your funding request.

➢ **Part 8: Financials**

The financials should be developed after you've analyzed the market and set clear objectives. That's when you can allocate resources efficiently. The following is a list of the critical financial statements to include in your business plan packet.

- Historical Financial Data
- Prospective Financial Data

➢ **Part 9: The Appendix**

The appendix section should be provided to readers on an as-needed basis. In other words, it should not be included with the main body of your business plan. Your business plan is your communication tool. As such, it will be seen by a lot of people. Some of the information in the business section you will not want everyone to see.

However, specific individuals (such as creditors) may want access to this information in order to make lending decisions. Therefore, it is important to have the appendix within easy reach.

The appendix would include:

- credit history (personal & business)
- resumes of key managers
- product pictures
- letters of reference
- details of market studies
- relevant magazine articles or book references
- licenses, permits, or patents
- legal documents
- copies of leases
- building permits
- contracts
- list of business consultants, including attorney and accountant

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

The elaboration of a business plan is a cumbersome and time-consuming task and only at the end of the process the potential business starter will have all the information that allows an assessment of the viability of the business. It often turns out that the business plan shows that the

forecasted cash or benefit is not enough to run the business or it is not clear whether the business can be run safely or not. A short assessment will allow the potential business starter to make a decision as to whether she/he should continue the start-up process, abandon the business idea,change the size of the planned business or take other measures to make the business viable.

5.5.1How to Interpret the Findings of the Business Plan

Before starting a business, the potential business starter should be able to answer

the following questions.

- Will the business generate enough cash to always allow liabilities to be paid?
- How many goods or services must the business sell to cover the costs and to start making benefits?
- What will happen when turnover decreases or costs go up?

1. Will the business generate enough money?

To answer the first question, we have to know that a business starter will need to earn money for his/her own living expenses, that income tax has to be paid and that if credit is used, the credit plus interest has to be paid back in regular installments. A look at the cash flow plan will provide information about the cash situation. The operational costs include staff costs and, if the entrepreneur works in his own enterprise, she/he will include her/his own salary in this cost category. But maybe this salary is not sufficient and the entrepreneur needs more money. This money can be taken from the net profit (if there is any) and the amount has to be recorded as “Any other cash out” in the cash flow plan.

The business has to pay taxes on the profits, and this is generally paid at the end of the fiscal year. The amount of tax is calculated in the chart “Monthly estimation of the net profit”. This amount has to be included in the cash flow plan as “Any other cash out”.

Repayment of a loan is always done in regular installments; these can be monthly, or every three, six or twelve months. Interest payments are due at the same time. Interest and loan repayments are also recorded in the cash flow plan.

If during the whole planning period the “Cash at the end of the month” is always positive, the business stands a good chance of running smoothly.

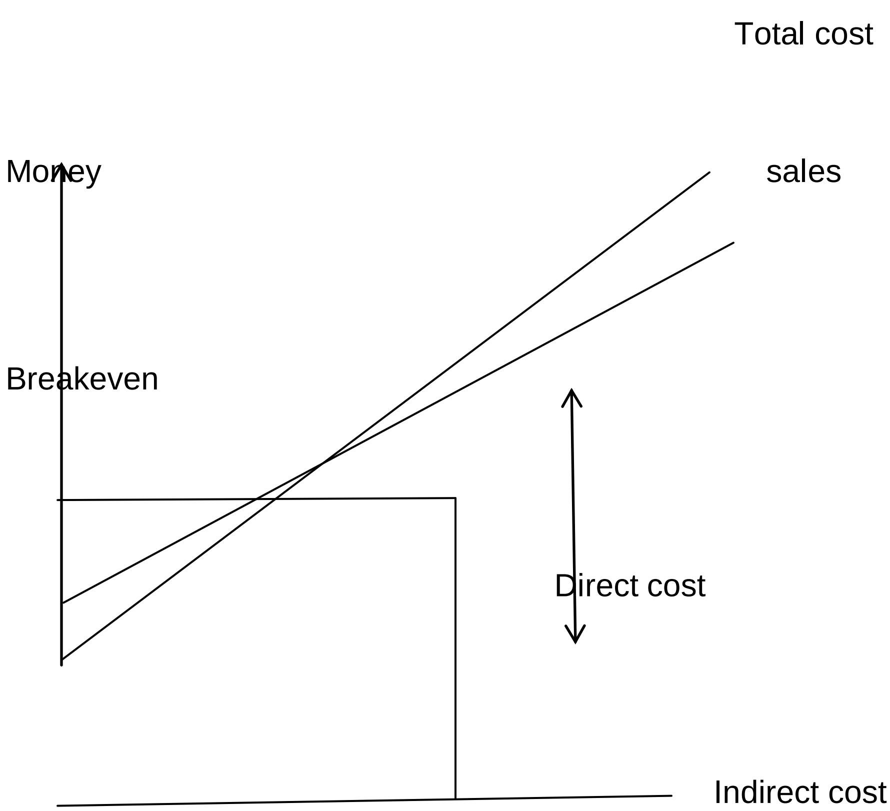
2. How many goods or services must the business sell to cover the costs and to start making a profit?

The answer to this question comes from break-even analysis.

At the break-even point the revenues from sales equal total costs. Each additional sale will generate profits. In order to calculate the break-even point we have to know the total amount of indirect costs (also called overheads), plus the total of direct costs and also the sales turnover. The difference between the unit sales price and the direct costs per unit sold is called contribution margin.

Break-even = indirect costs / contribution margin

The following graph shows the relationship between sales, direct costs and indirect costs.



Breakeven Goods sold

The graph indicates, how much turnover the business has to generate, or how many goods have to be sold before the business makes a profit. The earlier the business reaches the break-even point the better for the business.

3. What will happen when turnover decreases or costs go up?

The break-even analysis can show what effect a price rise or price decrease will have on the break-even point. If the market allows it, the price could be increased and the zone of profit will be reached earlier. However, the market does not often allow a price increase. If the market price is such that the sales only equal the cost when 80% or 90% of the turnover is reached, the business will probably not generate enough cash to pay all its obligations.

5.5.2 Feasibility of the business idea is made clear and understandable

- There is no magic answer to this question. Experience has shown that some of the most bizzare ideas, such as the concept of a personal computer have turned into successful businesses, while some have not.
- It's important to look critically and impartially at your business idea when determining whether or not it's worth investing your time and money.
- It can be difficult to remain impartial about an idea you're passionate about, so talk to a business advisor to get a qualified and objective perspective.
- While there are no guarantees that your business will succeed, a feasibility study will help you determine whether your idea will make a profit before you make a financial commitment.
- It's important to remember that what is considered feasible may differ greatly from person to person depending on the return on investment they want and the risk they're willing to take on.
- In your feasibility study you should analyse your business idea, market and competitive advantage as well as the financial feasibility of the business.

- **Analyse the business idea**
  - ✓ In this first stage of your feasibility study you need to look objectively at the idea and determine its profitability. This objective analysis would include:
    - assessing the market size;
    - assessing the competitive advantage of your idea;
    - obtaining independent endorsement of the idea;
    - assessing capital requirements;
    - considering your management ability; and
    - Finding out if anyone else has tried your business idea, and if they failed - why?
- **Market analysis**
  - ✓ Once you have determined there is a market for the product or service you are planning to supply, you need to conduct some more research which should include the following:
- **Demand analysis**:
  - ✓ Here you determine the type of demand that exists for your product or service (eg: consumer, distributor), and establish the size of the market and its growth capacity.
- **Supply analysis**:
  - ✓ Look at the lifecycle of the industry. Is it the right time for you to be entering it? Also study the way the industry is structured and think about how that will affect your business.
  - ✓ Relationship analysis: how do the various groups within the industry interact? What is the bargaining power of buyers and suppliers? Is there a threat of substitute products or new entrants?
- **Competitive advantage analysis**

- ✓ Now that you've established that your idea is a good one and that there is a market for what you are offering, you need to determine what makes your product or service special. Ask yourself these questions:
  - How is my product or service different to those offered by my competitors?
  - Why will customers purchase the product or service from me rather than my competitors?
  - Are there any barriers to me entering the market?
  - What makes my competitors successful?

Financial feasibility analysis

- ✓ The final part of your study should address the financial feasibility of the business idea which involves the following:
  - preparing a sales forecast;
  - estimating start-up and working capital requirements;
  - estimating profitability; and
  - Assessing financial viabilit

5.5.3 Problems that may arise or encounter when starting a business are identified and understand.

- ❖ Effective problem solving and decision making

  - ✓ Problem solving is about bridging the gap between where you are and where you want to be. Decision making is about choosing how you want to bridge that gap.
  - ✓ In that sense, we all are problem solvers and decision makers and any improvement in our skills can translate into major leaps for our organizations.
  - ✓ Effective problem solving and decision making are skills that you develop through forming habits. This site gives ideas on how to acquire these habits.
- ❖ Problem solving is a four-step process :

- First, **defining the problem** (making sure you are not focusing on just a symptom or a less critical problem).
- Second, you need to **diagnose** it; that is, understand its root cause(s), which usually requires you to build a "why" issue tree tree.
- Next you need to **identify all the potential solutions**—using "how" issue trees / decision trees*—before deciding which one(s) you want to implement; a good way to do so is to use a decision matrix.
- The final step is to **execute the solution**(s): convince the rest of your team/boss/client that the one you picked is the right one, implement it, and monitor its effectiveness.

5.5.4 **Techniques and procedures in obtaining and sourcing information are discussed and understood.**

- "Source" means data that originates from either primary or secondary source. An **information source** is a source of information for somebody, i.e. anything that might inform a person about something or provide knowledge to somebody.
- Information sources may be observations, people, speeches, documents, pictures, organizations etc. They may be primary sources, secondary sources, tertiary sources and so on.
- **Primary sources** are original materials.Which may include an artifact, a document, a recording, or other source of information that was created at the time under study. It serves as an original source of information about the topic. And more over, a primary source can also be a person with direct knowledge of a situation, or a document created by such a person.
- a**secondary source** is a document or recording that relates or discusses information originally presented elsewhere. A secondary source contrasts with a primary source, which is an original source of the information being discussed; a primary source can be a person with direct knowledge of a situation, or a document created by such a person. Eg books, document from internet etc.

Self-Check	Written Test

Name: ________________________ Date: ______________

Directions: Answer all the questions listed below.

1. What is a business plan?
2. Why is a business plan written?

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

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

ANSWER ALL THE QUESTIONS FOR SELF CHECK

Self-Check 1	Written Test

1. Entrepreneur is a person while entrepreneurship is a process. When it is put in other way,Entrepreneurship is the process of creating something different with value by devoting the necessary time and effort, assuming the accompanying financial, psychic and social risks, and receiving the resulting rewards of monetary and personal satisfaction and independence.

Self-Check 2	Written Test

1. *Self-directed (self-disciplined),Self-nurturing,Action oriented,Action orientedand Tolerant of Uncertaint.*

2. Knowledge,Skill and Traits

Self-Check 3	Written Test

1. ***Know Your business in depth***: - Knowing your industry well can be one of the ways of minimizing the failures of small businesses. Also knowing your business well by preparing documented business mission, objective, strategies and policies
2. *Using personal finance*

Advantages

1. All of the profit kept.
2. Reduces amount of debt.
3. Risk of loss provide motivation to succeed.
4. Shows good faith to any potential lender

Disadvantage

1. Chance of loss.

2. May force personal sacrifices.

3. Loss of return from use of savings in other investments.

Continous……….

Self-Check 4	Written Test

1. 1.*Identify specific daily goals.*

3. *Avoid interruptions and distractions.*
4. *Self-motivation.*
5. *Establish deadlines.*
6. *Use the telephone*
7. *Take notes.*
8. *Don’t do everything.*
9. *Work in blocks of time.*

2. The purpose of this topic is to show the importance of managing one's self effectively. Knowing the importance of self-management is the first step in understanding one's personal strengths. The next step is to be able to use some general principles to assist in the self-management process

Self-Check 5	Written Test

1.A business plan is a blueprint of your company, presented in standard business format that is logical and well documented

2. a strategic vision of your company

- Your most important communication tool

- A document to obtain working capital and/or investments
- A tool for planning, measuring and improving performance
- A basis for sound decision-making
- A way to motivate employees

Information sheet	Learning Guide #69

This learning guide is developed to provide you the necessary information regarding the following **content coverage** and topics -

- concept, importance and process of preparing/ writing a business plan
- ***Feasibility of the business*** idea
- Interpret, assess and analyze Findings of the feasibility study
- preparing business plan.
- Problems that may arise or encounter when starting a business

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

- Discuss and understand the concept, importance and process of preparing/ writing a business plan
- Make clear and understand ***Feasibility of the business*** idea
- Interpret, assess and analyze Findings of the feasibility study
- Apply Standard structure and format in preparing business plan.
- Identify and understand Problems that may arise or encounter when starting a business

Learning Instructions:

5. Read the specific objectives of this Learning Guide.
6. Follow the instructions described
7. 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.
8. Accomplish the "Self-check 1" **in page -.**
9. 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).

10. 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 #1. Submit your accomplished Self-check

you develop the specific elements of your business plan will vary. What is a Business Plan? A business plan is a blueprint of your company, presented in standard business format that is logical and well documented. A good business plan is also:

1.1. The reason for preparing a business plan

- A strategic vision of your company
- Your most important communication tool
- A document to obtain working capital and/or investments
- A tool for planning, measuring and improving performance
- A basis for sound decision-making
- A way to motivate employees

1.2. Process of preparing/ writing a business plan

Whether you are writing your business plan for the first time or rewriting it for the twentieth, there are certain steps you can follow in order to make the process easier.

- Step- 1. Identify your objectives. The first step in preparing your business plan is to determine who your audience is going to be and what they want to know about your company. Then, you must determine what you want your audience to know. What are the areas you want to emphasize? What are the ones you want to downplay or eliminate? Once you have resolved any conflicts between these two viewpoints, you are ready to move to
- Step- 2. Outline your business plan. Now that you have identified your objectives, you can begin preparing an outline of your business plan based on these special requirements. An outline can be as general or as specific as you would like. However, the more specific it is, the easier the writing process will be.
- Step- 3. Review your outline. The next step is to review your outline. Based on your readers and your objectives, identify the areas that should be presented in detail or summary form in your business plan. Remember

that your business plan should maintain a fairly high-level focus. Any detail information can be included in the appendix section of your business plan or on a request basis.

- Step- 4. Write your plan. Depending on the age of your business and your experience in writing business plans, the order in which
  - Gather information.
  - Prepare drafts.
  - Write summary.
- Step- 5. Have your plan reviewed. Since it is often difficult to be critical of your own creation, you will want to have someone who is familiar with the planning process and business management review your business plan for completeness, logic, effectiveness as a communication tool, and presentation. Then, make any necessary revisions based on the person's comments. Remember that it is important to update your business plan on a regular basis or it will become useless.

1.3. Standard structure and format of a business plan

Every Successful business plan should include something about each of the following areas since these are what make up **the essential elements of a good business plan:**

- Executive Summary
- Market Analysis
- Company Description
- Organization & Management
- Marketing & Sales Strategies
- Service or Product Line
- Funding Request
- Financials
- Appendix

- **Part 1: The Executive Summary: -**The Executive Summary is the most important section of your business plan. It provides a concise overview of the entire plan along with a history of your company. This section tells your reader where your company is and where you want to take it. It's the first thing your readers see. Therefore, it is the thing that will either grab their interest and make them want to keep reading . . . or make them want to put it down and forget about it. More than anything else, this section is important because **it tells the reader "why"you think your business idea will be Successful.** The Executive Summary should be the last section you write. After you've worked out all the details of your business plan, you'll be in a better position to summarize it. And it should be a summary (ie, no more than 4 pages!).Contents of the Executive Summary

- The Mission Statement.
- Date business began
- Names of founders and the functions they perform
- Number of employees
- Location of business and any branches or subsidiaries
- Description of plant or facilities
- Products manufactured/services rendered
- Banking relationships and information regarding current investors
- Summary of company growth including financial or market highlights
- Summary of management's future plans

➢ **Part 2: Market Analysis: -**The Market Analysis section should illustrate your knowledge about the particular industry your business is in. It should also present general highlights and conclusions of any marketing research data you have collected. However, the specific details of your marketing research studies should be moved to the appendix section of your business plan. This section should include: an industry description and outlook; target market information; market test results; lead times; and an evaluation of your competition.Your target market is simply the market (or group of customers) that you want to target (or focus on and sell to). When you are defining your target market, it is important to narrow it to a manageable size. Many businesses make the mistake of trying to be everything to everybody. Often times, this philosophy leads to failure. In this section, you should gather information which identifies the:

- Distinguishing characteristics of the major/primary market you are targeting.
- Size of the primary target market.

- The extent to which you feel you will be able to gain market share and the reasons why.
- Your pricing and gross margin targets.
- Resources for finding information related to your target market.
- Media you will use to reach your target audience.
- Purchasing cycle of your potential customers.
- Trends and potential changes
- Key characteristics of your secondary markets.

Under this part Market Tests, Regulatory Restrictions,CompetitiveAnalysis,and Lead Times are also included.

- **Part 3: Company Description: -** Without going into detail, this section should include a high level look at how all of the different elements of your business fit together. The Company Description section should include information about the nature of your business as well as list the primary factors that you believe will make your business a success.When defining the nature of your business (or "why" you're in business), be sure to list the marketplace needs that you are trying to satisfy and include the ways in which you plan to satisfy these needs using your products or services. Finally, list the specific individuals and/or organizations that you have identified as having these needs. Primary success factors might include a superior ability to satisfy your customers' needs, highly efficient methods of delivering your product or service, outstanding personnel, or a key location. Each of these would give your business a competitive advantage.
- **Part 4: Organization &Management: -** This section should include: your company's organizational structure; details about the ownership of your company; profiles of your management team; and the qualifications of your board of directors. Who does what in your business? What is their background and why are you bringing them into the business as board members or employees? What are they responsible for? These may seem like unnecessary questions to answer in a one or two-person organization, but the people reading your business plan want to know who's in

charge. So, tell them. Give a detailed description of each division or department and its function.

This section should include who's on the board (if you have an advisory board) and how you intend to keep them there. What kind of salary and benefits package do you have for your people? What incentives are you offering? How about promotions? Reassure your reader that the people you have on staff are more than just names on a letterhead. Under this part Organizational Structure, Ownership Information, and Management Profiles are included.

- **Part 5: Marketing and Sales Strategies: -**Marketing is the process of creating customers . . . and customers are the lifeblood of your business. In this section, the first thing you want to do is define your marketing strategy. There is no single "right" way to approach a marketing strategy. Your marketing strategy should be part of an ongoing self-evaluation process, and unique to your company. However, there are steps you can follow which will help you "think through" the strategy you would like to use.

  An Overall Marketing Strategy would include a:

  - Market penetration strategy
  - Strategy for growing your business.
  - Channels of distribution strategy.
  - Communication strategy.

  How do you plan to actually sell your product?

  Your Overall Sales Strategy should include:

  - A sales force strategy
  - Your sales activities.

- **Part 6: Service or Product Line: - What are you selling?** In this section, you describe your service or product emphasizing the benefits to potential and current customers. For example, don't tell your readers which 89 foods you carry in your "Gourmet to Go" shop. Tell them why busy, two-career couples will prefer shopping in a service-oriented store that records clients' food preferences, and caters even the smallest parties on short notice.

Overall, this section should include:

- A detailed description of your product or service (from your customers' perspective).
- Information related to your product's life cycle.
- Any copyright, patent, and trade secret information that may be relevant.
- Research and development activities, you are involved in or are planning to be involved in.

➢ **Part 7: Funding Request**

In this section, you will request the amount of funding you will need to start or expand your business. If necessary, you can include different funding scenarios such as a best- and worst-case scenario. But remember that, later, in the financial section, you must be able to back up these requests and scenarios with corresponding financial statements.

You will want to include the following in this section: your current funding requirement; your future funding requirements over the next five years; how you will use the funds you receive; and any long-range financial strategies that you are planning that would have any type of impact on your funding request.

➢ **Part 8: Financials**

The financials should be developed after you've analyzed the market and set clear objectives. That's when you can allocate resources efficiently. The following is a list of the critical financial statements to include in your business plan packet.

- Historical Financial Data
- Prospective Financial Data

➢ **Part 9: The Appendix**

The appendix section should be provided to readers on an as-needed basis. In other words, it should not be included with the main body of your business plan. Your business plan is your communication tool. As such, it will be seen by a lot of people. Some of the information in the business section you will not want everyone to see. However, specific individuals (such as creditors) may want access to this information in order to make lending decisions. Therefore, it is important to have the appendix within easy reach.

The appendix would include:

- credit history (personal & business)
- resumes of key managers
- product pictures
- letters of reference
- details of market studies
- relevant magazine articles or book references
- licenses, permits, or patents
- legal documents
- copies of leases
- building permits
- contracts
- list of business consultants, including attorney and accountant

Self-Check -1	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. What is a business plan?
2. Why is a business plan written?
3. **Write all Standard structure and format of a business plan?**

Note: **Satisfactory rating – 5 points** **Unsatisfactory – below 5 points**

Answer Sheet

Name: ___________________ Date: _________________

Score = ___________

Rating: ____________

Short Answer Question

Information sheet-2	Interpreting, assessing and analyzing findings of the business plan /optional/

The elaboration of a business plan is a cumbersome and time-consuming task and only at the end of the process the potential business starter will have all the information that allows an assessment of the viability of the business. It often turns out that the business plan shows that theforecasted cash or benefit is not enough to run the business or it is not clear whether the business can be run safely or not. A short assessment will allow the potential business starter to make a decision as to whether she/he should continue the start-up process, abandon the business idea, change the size of the planned business or take other measures to make the business viable.

2.1. How to Interpret the Findings of the Business Plan

Before starting a business, the potential business starter should be able to answerthe following questions.

- Will the business generate enough cash to always allow liabilities to be paid?
- How many goods or services must the business sell to cover the costs and to start making benefits?
- What will happen when turnover decreases or costs go

4. Will the business generate enough money?

To answer the first question, we have to know that a business starter will need to earn money for his/her own living expenses, that income tax has to be paid and that if credit is used, the credit plus interest has to be paid back in regular installments. A look at the cash flow plan will provide information about the cash situation. The operational costs include staff costs and, if the entrepreneur works in his own enterprise, she/he will include her/his own salary in this cost category. But maybe this salary is not sufficient and the entrepreneur needs more money. This money can be taken from the net profit (if there is any) and the amount has to be recorded as “Any other cash out” in the cash flow plan.

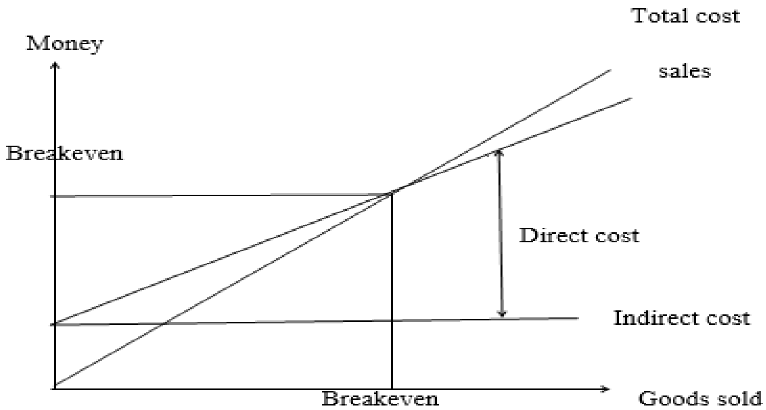
The business has to pay taxes on the profits, and this is generally paid at the end of the fiscal year. The amount of tax is calculated in the chart “Monthly estimation of the net profit”. This amount has to be included in the cash flow plan as “Any other cash out”.Repayment of a loan is always done in regular installments; these can be monthly, or every three, six or twelve months. Interest payments are due at the same time. Interest and loan repayments are also recorded in the cash flow plan.If during the whole planning period the “Cash at the end of the month” is always positive, the business stands a good chance of running smoothly.

5. How many goods or services must the business sell to cover the costs and to start making a profit?

The answer to this question comes from break-even analysis.At the break-even point the revenues from sales equal total costs. Each additional sale will generate profits. In order to calculate the break-even point, we have to know the total amount of indirect costs (also called overheads), plus the total of direct costs and also the sales turnover. The difference between the unit sales price and the direct costs per unit sold is called contribution margin.

Break-even = indirect costs / contribution margin

The following graph shows the relationship between sales, direct costs and indirect costs.



The graph indicates, how much turnover the business has to generate, or how many goods have to be sold before the business makes a profit. The earlier the business reaches the break-even point the better for the business.

6. What will happen when turnover decreases or costs go up?

The break-even analysis can show what effect a price rise or price decrease will have on the break-even point. If the market allows it, the price could be increased and the zone of profit will be reached earlier. However, the market does not often allow a price increase. If the market price is such that the sales only equal the cost when 80% or 90%

of the turnover is reached, the business will probably not generate enough cash to pay all its obligations.

2.2. **Feasibility of the business idea is made clear and understandable**

- There is no magic answer to this question. Experience has shown that some of the most bizzare ideas, such as the concept of a personal computer have turned into successful businesses, while some have not.
- It's important to look critically and impartially at your business idea when determining whether or not it's worth investing your time and money.
- It can be difficult to remain impartial about an idea you're passionate about, so talk to a business advisor to get a qualified and objective perspective.
- While there are no guarantees that your business will succeed, a feasibility study will help you determine whether your idea will make a profit before you make a financial commitment.
- It's important to remember that what is considered feasible may differ greatly from person to person depending on the return on investment they want and the risk they're willing to take on.
- In your feasibility study you should analyse your business idea, market and competitive advantage as well as the financial feasibility of the business.

Analyse the business idea

- ✓ In this first stage of your feasibility study you need to look objectively at the idea and determine its profitability. This objective analysis would include:
  - assessing the market size;
  - assessing the competitive advantage of your idea;
  - obtaining independent endorsement of the idea;
  - assessing capital requirements;
  - considering your management ability; and
  - Finding out if anyone else has tried your business idea, and if they failed - why?

Market analysis

- ✓ Once you have determined there is a market for the product or service you are planning to supply, you need to conduct some more research which should include the following:

- **Demand analysis**:
  - ✓ Here you determine the type of demand that exists for your product or service (eg: consumer, distributor), and establish the size of the market and its growth capacity.
- **Supply analysis**:
  - ✓ Look at the lifecycle of the industry. Is it the right time for you to be entering it? Also study the way the industry is structured and think about how that will affect your business.
  - ✓ Relationship analysis: how do the various groups within the industry interact? What is the bargaining power of buyers and suppliers? Is there a threat of substitute products or new entrants?
- **Competitive advantage analysis**
  - ✓ Now that you've established that your idea is a good one and that there is a market for what you are offering, you need to determine what makes your product or service special. Ask yourself these questions:
    - How is my product or service different to those offered by my competitors?
    - Why will customers purchase the product or service from me rather than my competitors?
    - Are there any barriers to me entering the market?
    - What makes my competitors successful?
- **Financial feasibility analysis**
  - ✓ The final part of your study should address the financial feasibility of the business idea which involves the following:
    - preparing a sales forecast;
    - estimating start-up and working capital requirements;
    - estimating profitability; and
    - Assessing financial viability

Self-Check -2	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. What is a business plan?
2. Why is a business plan written?
3. Write all Standard structure and format of a business plan?

Note: **Satisfactory rating – 5 points** **Unsatisfactory – below 5 points**

Answer Sheet

Score = ___________

Rating: ____________

Name: _________________ Date: _______________

Short Answer Question

Information sheet-3	Identifying and understanding problems that may arise or encounter when starting a business

1.1. Techniques and procedures in obtaining and sourcing information

- "Source" means data that originates from either primary or secondary source. An **information source** is a source of information for somebody, i.e. anything that might inform a person about something or provide knowledge to somebody.
- Information sources may be observations, people, speeches, documents, pictures, organizations etc. They may be primary sources, secondary sources, tertiary sources and so on.
- **Primary sources** are original materials.Which may include an artifact, a document, a recording, or other source of information that was created at the time under study. It serves as an original source of information about the topic. And more over, a primary source can also be a person with direct knowledge of a situation, or a document created by such a person.
- a**secondary source** is a document or recording that relates or discusses information originally presented elsewhere. A secondary source contrasts with a primary source, which is an original source of information being discussed; a primary source can be a person with direct knowledge of a situation, or a document created by such a person. Eg books, document from internet etc.

❖ **Effective problem solving and decision making**

- ✓ Problem solving is about bridging the gap between where you are and where you want to be. Decision making is about choosing how you want to bridge that gap.
- ✓ In that sense, we all are problem solvers and decision makers and any improvement in our skills can translate into major leaps for our organizations.
- ✓ Effective problem solving and decision making are skills that you develop through forming habits. This site gives ideas on how to acquire these habits.

❖ Problem solving is a four-step process:

- First, **defining the problem** (making sure you are not focusing on just a symptom or a less critical problem).

- Second, you need to **diagnose** it; that is, understand its root cause(s), which usually requires you to build a “why” issue tree tree.
- Next you need to **identify all the potential solutions**—using “how” issue trees / decision trees*—before deciding which one(s) you want to implement; a good way to do so is to use a decision matrix.
- The final step is to **execute the solution**(s): convince the rest of your team/boss/client that the one you picked is the right one, implement it, and monitor its effectiveness.

Self-Check -3	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. Write and discuss problem solve steps?

Note: **Satisfactory rating – 5 points** **Unsatisfactory – below 5 points**

Answer Sheet

Name: _________________ Date: _______________

Score = ___________

Rating: ____________

Short Answer Question

Reference	Books

1994. Accounting records and source documentation

2018. Business Expenses; For use in preparing Returns

1999. Managing Financial Records

2015. Introduction to Entrepreneurship; All content following this page was uploaded by Dr. AnuragPahuja on 27 April 2016.

2015. Fundamentals for Becoming a Successful Entrepreneur from Business Idea to Launch and Management MalinBrännback Alan Carsrud

2012. creating an entrepreneur mildest: failure is an option