Ethiopian TVET-System

INFORMATION TECHNOLOGY SUPPORT SERVICE

Level I

Based on May 2011 Occupational Standards

October, 2019

Module Title: DEVELOPING UNDERSTANDING OF ENTREPRENEURSHIP

TTLM Code: ICT ITS1 TTLM1019 v1

This module includes the following Learning Guides

LG40: describe and explain the principles, concept and scope of Entrepreneurship
LG Code: ICT ITS1 M11 L01-LG40

LG41: Discuss How to Organize an Enterprise
LG Code: ICT IITS1 M11 L03-LG41

LG42: Discuss How to Operate an Enterprise
LG Code: ICT ITS1 M11 L04

LG43: Develop One's Own Business Plan

LG Code: ICT ITS1 M11 L05-39

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

- Definition of enterprising and Use of enterprising
- Definition of entrepreneurs and Role of entrepreneurs

Upon completion of this Learning Guide, you will be able to –

- Analyze and discuss the principles, concept and terminology of entrepreneurship
- Identify the different / various forms of enterprises in the community and their roles
- Categorize and classify the identified enterprises
- Identify and interpret the terms and elements involved in the concept of enterprising
- Explain functions of entrepreneurship in business and how the entrepreneurs improved business and economic environment

Learning Activities

1. Read the specific objectives of this Learning Guide.
2. Read the information written in the "Information Sheets 1" in pages 7-8.
3. Accomplish the "Self-check" in page 6.
4. If you earned a satisfactory evaluation proceed to "Operation Sheet 2" in pages 8-9. However, if your rating is unsatisfactory, see your teacher for further instructions or go back to Learning Activity # 36.
5. Read the "Operation Sheet 1" and try to understand the procedures discussed.
6. If you satisfactorily performed Operation Sheet 1, proceed to "Operation Sheet 2" in pages 10-12. However, if your rating is unsatisfactory, see your teacher for further instructions or go back to Operation Sheet 1.

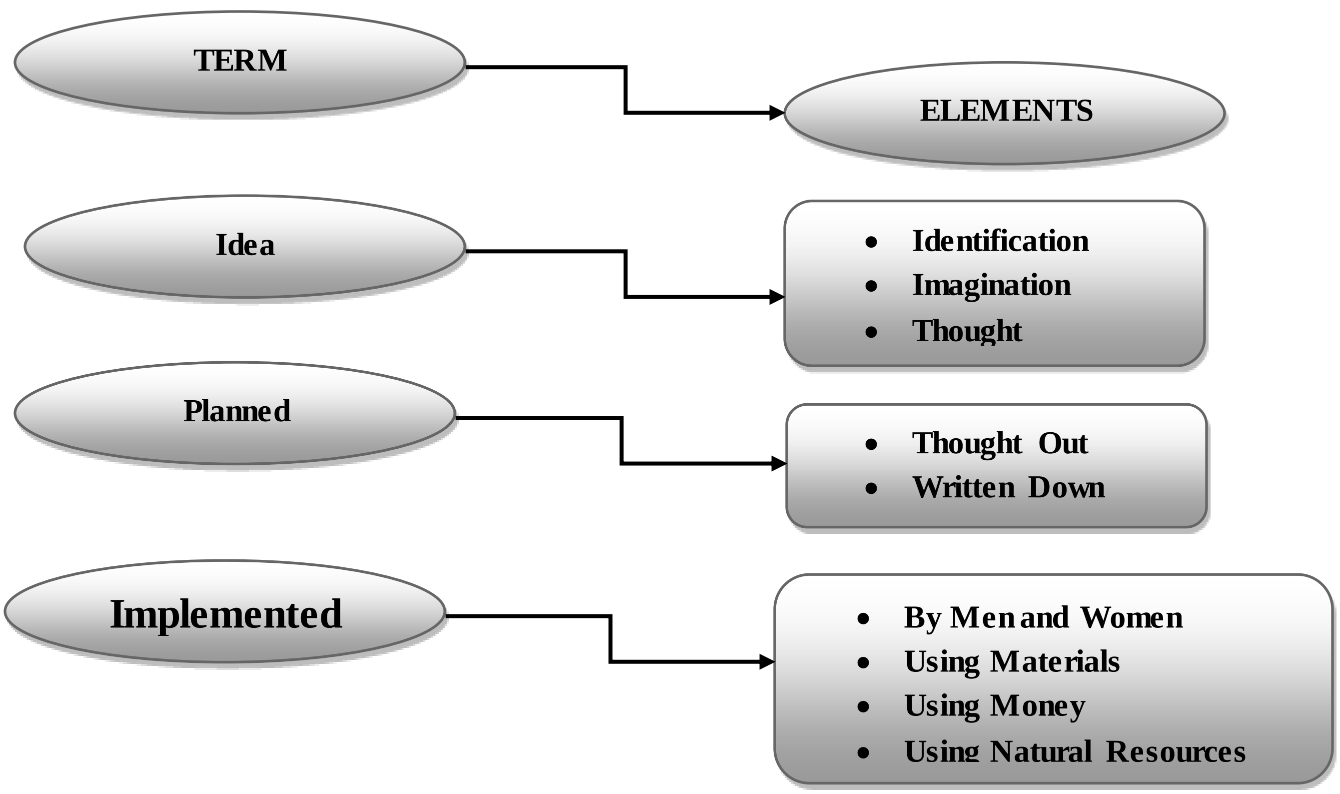
- Your teacher will evaluate your output either satisfactory or unsatisfactory. If unsatisfactory, your teacher shall advice you on additional work. But if satisfactory you can proceed to the next topic.

Information Sheet 1	Concept of Enterprising

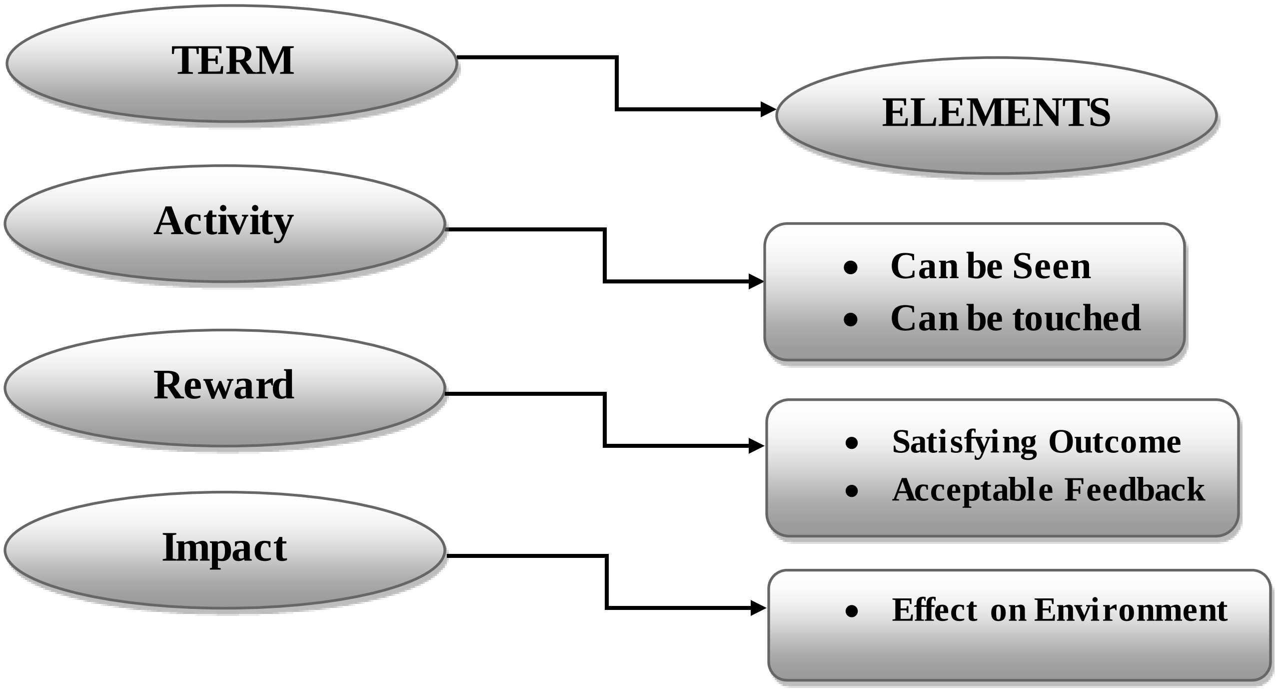
Meaning of Enterprising

- On a personal level/in its wider sense, enterprising can be any identified idea that a person can translate into a planned and satisfactorily implemented activity.
- In the business sense/in its narrower sense, enterprising refers to a business venturing or undertaking.
- An enterprise is considered to be any entity engaged in an economic activity, irrespective of its legal form.
- Practically all undertakings can be referred to as enterprising it fulfills the followings. i.e.
- Idea identification,
- Planning,
- Implementation,
- Successful completion of an activity and
- Receiving the rewards.

Therefore Enterprising involves



Therefore Enterprising Involves



- By understanding the enterprising concept, all people have the potential to be enterprising.
- Some people are enterprising when they own a business.
- Enterprising societies are able to deal positively with the challenges and problems they face in their daily lives.
- Being enterprising can bring benefits to you and also help you to become a valued member of your society.
- Enterprising approach can be applied to different circumstances.
- This kind of approach will enable you to appreciate the challenges of life because you will be able to translate challenges into positive results.
- E: Energy
- N: Need to achieve
- T: Task oriented
- E: Empathy
- R: Resourcefulness

- P: Planning
- R: Risk-taking
- I: Innovation
- S: Skills
- I: Independence
- N: Networking
- G:Goal oriented

- **Characteristics of an Enterprising Society**

- Useful goods and services constantly produced/provided
- Wide distribution of needed goods and services throughout the population
- New ideas continuously infused for revitalization and growth of the economy
- Continuous discovery of unidentified needs of society
- Constant solving of problems experienced in society
- Avoids stagnation through giving individuals a chance to be innovative and creative
- The present and future availability of natural resources and conservation of nature are guaranteed

Self-Check 1	Written Test

Instruction: Answer all the questions listed below, if you have some clarifications- feel free to ask your teacher.

Multiple Choices

1. Any identified idea that a person can translate into a planned and satisfactorily implemented activity:
   a. Enterprising
   b. Entrepreneur
   c. Business Organization
   d. Retail Shops
2. Any undertakings can be referred to as enterprising if it fulfills the followings:
   a. Idea identification,
   b. Planning,
   c. Implementation,
   d. All
3. Enterprising societies:
   a. Don't care for any problems
   b. Don't face any challenge
   c. Are able to deal positively with the challenges and problems they face
   d. When they face a problem they sell their enterprise
4. Being enterprising can bring benefit to you in one of the following ways:
   a. You will be hired in government institutions
   b. You will become a valued member of your society
   c. You will be a richest man in a few days
   d. All
5. In an enterprising society:
   a. Useful goods and services constantly produced/provided
   b. Wide distribution of needed goods and services throughout the population
   c. Continuous discovery of unidentified needs of society
   d. All are possible

Please ask your trainer for the answer for this Self-Check.

Information Sheet 2	Concept of Entrepreneurship

What is Entrepreneurship?

- Entrepreneurship refers to an individual's ability to turn ideas into action. It enables people to think creatively and to be an effective problem solver (European Commission).
- Entrepreneurship is an *organizational and management approach* that enables persons to respond to change and solve problems in whatever situation (either business or non-business) they may find themselves (KAB Module).
- Entrepreneurship is the act of being an entrepreneur, who starts any economic activity for being self-employed.
- Entrepreneurship is strategic thinking and risk-taking behavior that results in the creation of new opportunities for individuals and/or organizations (Schermerhorn).
- Entrepreneurship is the process of creating something different, with value, by devoting necessary time and effort, by assuming the accompanying financial, psychological, and social risks, and receiving the resulting *rewards of monetary and personal satisfaction (Bowen and Hisrich).*
- Entrepreneurship is the pursuit of opportunity through creativity, innovation and hard work without regard for the resources currently controlled.
- There are five elements of entrepreneurship:
  1. Observing the environment/identifying gaps,
  2. Identifying opportunities,
  3. Gathering the necessary resources,

4. Implementing the activity and
5. Receiving rewards for engaging in the activity.

Entrepreneurial Functions in Business

- Identify gaps in the market and turn these gaps into business opportunities.
- Finances and mobilizes resources for the business
- Organize and manage the business.
- Bear the uncertainties and risks of the business.
- Encourage competition
- Self-employed and applying entrepreneurship

Economic Principles of Entrepreneurship

- ✓ Works best in an *open market economy*
- ✓ Promotes private enterprise
- ✓ Adds value to products and services (creates wealth)
- ✓ Providing needed products/service
- ✓ Developing new markets

Rewards for Being an Entrepreneur

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

Personal efforts to be an Entrepreneur

- Works long hours
- Always concerned about the business
- Needs high energy
- Sacrifices other important aspects of life
- Limited social life

- Not much time with family and friends
- Financial investment

Self-Check 2	Written Test

Instruction: Answer all the questions listed below, if you have some clarifications- feel free to ask your teacher.

Multiple Choices

1. Entrepreneurship refers to:
    a. The individual's ability to be hired in any organization
    b. An individual's ability to turn ideas into action.
    c. That the individual has been graduated in entrepreneurship education
    d. That the individual is a merchant.
2.

INTRODUCTION	LG41: Discuss How to Organize an Enterprise

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

- Definition of enterprising
- Definition of entrepreneurs
- Role of entrepreneurs
- Use of enterprising

Upon completion of this Learning Guide, you will be able to –

- Analyze and discuss the principles, concept and terminology of entrepreneurship
- Identify the different / various forms of enterprises in the community and their roles
- Categorize and classify the identified enterprises
- Identify and interpret the terms and elements involved in the concept of enterprising
- Explain functions of entrepreneurship in business and how the entrepreneurs improved business and economic environment

Learning Activities

1. Read the specific objectives of this Learning Guide.
2. Read the information written in the “Information Sheets 1” in pages 3-6.
3. Accomplish the “Self-check” in page 7.
4. If you earned a satisfactory evaluation proceed to “Operation Sheet 1” in pages 8-9. However, if your rating is unsatisfactory, see your teacher for further instructions or go back to Learning Activity # 1.
5. Read the “Operation Sheet 1” and try to understand the procedures discussed.

6. If you satisfactorily performed Operation Sheet 1, proceed to "Operation Sheet 2" in pages 10-12. However, if your rating is unsatisfactory, see your teacher for further instructions or go back to Operation Sheet 1.

Information Sheet 1	Business Ideas

Creativity

Meaning of Creativity

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

Business Ideas

Meaning of Business Idea

- ➢ A business idea is the response of a person or persons, or an organization to solve an identified problem or to meet perceived needs in the environment (markets, community, etc.).
- ➢ A good business idea is essential for starting a successful venture and to stay ahead of

competition.

- Finding a good idea is the first step in transforming the entrepreneur’s desire and creativity into a business opportunity.
- Good business ideas, however, do not usually just occur to an entrepreneur.

Why Generate Business Ideas

There are many reasons why entrepreneurs or would-be entrepreneurs need to generate business ideas.

Here are just a few:

- ✓ You need a great idea to start a new business
- ✓ Business ideas need to respond to market needs
- ✓ Business ideas need to respond to changing consumer wants and needs
- ✓ Business ideas help entrepreneurs to stay ahead of the competition.
- ✓ Business ideas help entrepreneurs to stay ahead of the competition.
- ✓ Business ideas are needed to exploit technology and do things better
- ✓ Business ideas are needed because the life cycles of products are limited.
- ✓ Business ideas help to ensure that businesses operate effectively and efficiently.
- ✓ Business ideas help to solve natural resource scarcity, pollution and depletion.

Sources of Business Idea

- Hobbies/Personal Interests
- Personal Skills and Experience
- Mass Media (newspapers, magazines, TV, Internet)
- Business Exhibitions
- Surveys
- Customer Complaints
- Natural scarcities and pollution
- Changes in Society
- Brainstorming
- Being Creative

Brainstorming

- is a technique for creative problem-solving as well as for generating ideas.
- Its objective is to come up with as many ideas as possible.
- There are FOUR RULES for BRAINSTORMING:
  1. Don't criticize or judge the ideas of others
  2. Freewheeling is encouraged-ideas that seem to be wild or crazy are welcome.
  3. Quantity is desirable – the greater the number of ideas, the better
  4. Combine and improve upon the ideas of others.

Business Opportunity

What is a Business Opportunity?

- A business opportunity may be defined simply as an attractive investment idea or proposition that provides the possibility of a monetary return for the person taking the risk.
- A good idea is not necessarily a good business opportunity.

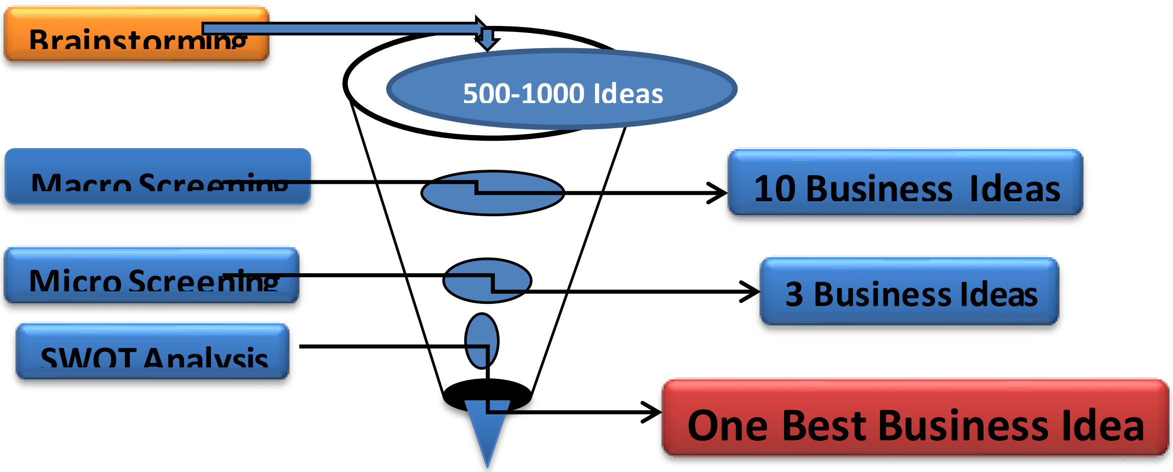
- So, what turns an idea into a business opportunity?

To be a good business opportunity, it must fulfill the following criteria:

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

Generating and Screening

Filtration Funnel Model



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1. Macro Screening Criteria (1st Stage Screening)

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

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

1. Marketing Viability
   - Target market for the products and why would customers buy the product
   - Size and growth rate of target market
   - The level of actual market demand and anticipated future market potential
   - Demand and supply situation, factors and trends
   - Direct and indirect competition
   - Marketing Practices
2. Technical Viability
   - Technology & its source
   - Machines and equipments
   - Production process
   - Raw Materials, power & other inputs
   - Infrastructure and Facilities
   - Location & layout of site, building & plant

3. Organizational and Management Viability
   - Abilities, competencies, skills, experience, values and motivations of management/key officers as per the requirements of project.
   - Sketch personnel requirements: what people will be needed now, in a year, in the long term? What skills and qualifications are required and what financial implication results?

4. Financial Viability

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

5. Environmental Viability

- What are the types of effluents and emission generated?
- What needs to be done for proper disposal of effluents and treatment of emissions?
- Will the project be able to secure all environmental clearance and comply with all statuary requirements?

6. Ecological Viability

- What is likely damaged caused by the project to the environment?
- What is the cost of restoration measures required to ensure that the damage to the environment is contained within acceptable limits?

Micro screening

No	Project idea	Availability of demand	Availability of raw materials	Availability of technology	Availability of qualified manpower	Total	Competitors	Corrected total	Critical success factor
		+	+	+	+	=	-	=	
1		4	3	5	5	22	3	19	
2									
3									
	5= very high	4= high	3= average	2= low	1= Very low				

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3. SWOT analysis

Strengths:

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

Example:

1. Technical expertise
2. New improvements of product
3. Good network with customers
4. Managerial experience
5. Superior technology
6. Distribution system
7. Product features (utility durability, etc.)

Weaknesses:

Weaknesses are within the control of the entrepreneur; they occur at present. They are "lack of...", "missing...", or weak points. As far as possible, weaknesses should be eliminated!

Example:

1. Weak selling effort
2. Lack of working capital
3. Inexperienced managers or employees
4. Technological obsolescence
5. Poor design of product

Opportunities:

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

Example:

1. Few and weak competitors
2. No such products in the market
3. Rising income of target market
4. Scarcity of product in the locality
5. Growing demand for the product
6. Favorable government policy/programs
7. Availability of technical assistance
8. Low interest rate on loans
9. Access to cheap raw material
10. Adequate training opportunities

Threats:

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

Example:

1. Hanging government regulations
2. Smuggling
3. Raw materials shortages
4. Insufficient power
5. Corruption
6. Poor infrastructure
7. Rising costs of raw materials
8. Too much/Unhealthy competition
9. Government bureaucracy

Strength **-Managerial expertise** **- Low cost of production** **-Good customer handling** **-Availability of assistance** **- Sufficient capital** **- Unique product**	**Weakness** **-High cost of production** **- Shortage of inventory** **-Poor customer handling** **- Shortage of capital** **- Poor quality product**
Opportunity -Few and weak competitors -Favorable government policy - Availability of cheap raw materials - Increasing income of target market - Availability of low interest loan - Availability of technical support	Threats -Natural disaster - Changing government policy - Shortage of raw materials - Change in consumer taste

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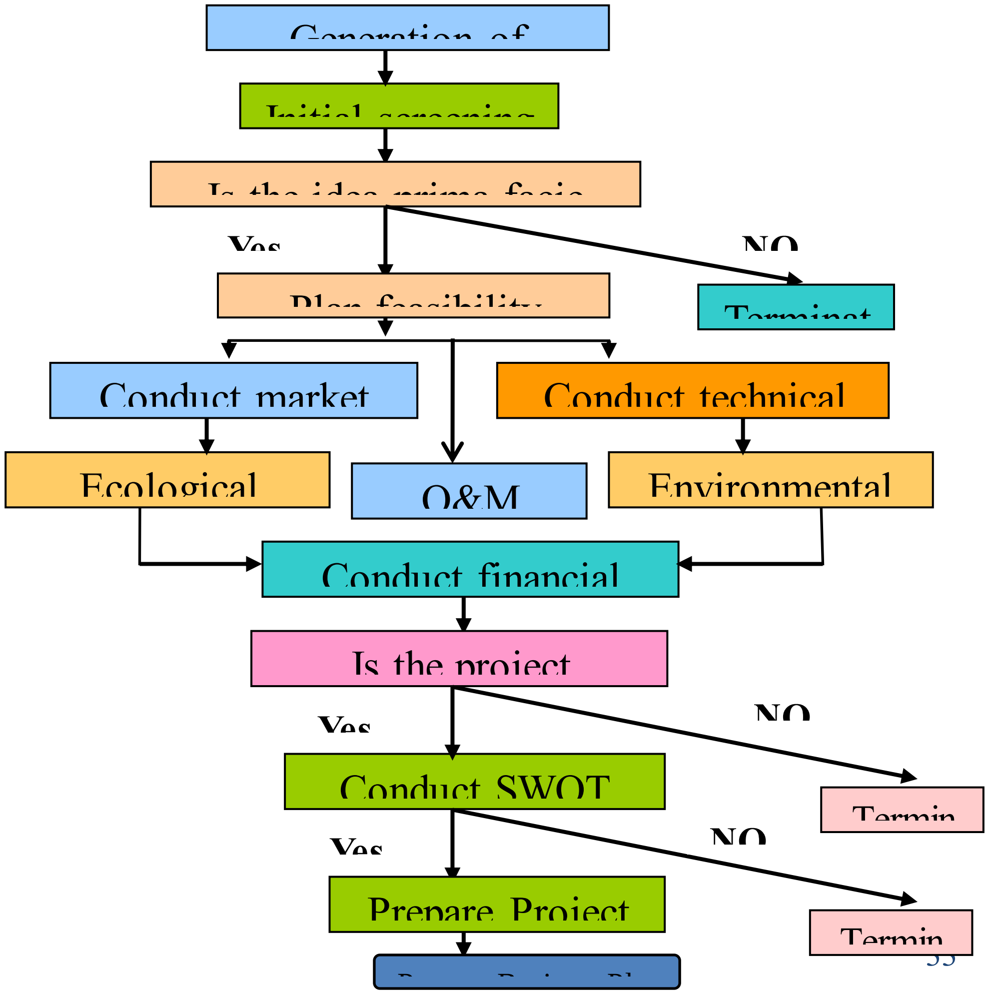
Generation of
Initial screening
Is the idea prima facie
Yes
NO
Plan feasibility
Terminat
Conduct market
Conduct technical
Ecological
O&M
Environmental
Conduct financial
Is the project
Yes
NO
Conduct SWOT
Termin
Yes
NO
Prepare Project
Termin

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INSTRUCTION SHEET	LG42: Discuss How to Operate an Enterprise

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

- Definition of enterprising
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Information Sheet 1	Startup Capital

Money Needed to Start an Enterprise

Objective of the Lesson

At the end of this lesson trainees will be able to:

1. Make the distinction between pre-operation and initial operation payments.
2. Estimate the amount of money needed to start an enterprise.

Rationale of the Lesson:

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

Estimating the Start-up Capital

If someone wants to start a business he/she must be aware that a certain amount of money is needed during the start-up process of a business for making payments before the business begins to generate enough sales income.

- This money is called start-up capital. It serves two purposes.

- Pre-operation payments or investment capital
- This is money that a person starting a business will have to pay before the business starts operating.
- The money needed for these payments is invested in the business as long as the business is operating.
- This time span depends on the nature of the business.
- This money is also invested permanently in the business and is working capital. When the business expands the working capital needs to be increased
- However, 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 expenses for training of workers to use machines
  - fees for licenses and insurance
  - costs related to renovation of facilities

2. Initial operation payments or working capital

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

Estimating the Start-up Capital

- This time span depends on the nature of the business.
- This money is also invested permanently in the business and is working capital. When the business expands the working capital needs to be increased

- If the working capital is underestimated, an entrepreneur may have a flourishing business, but may run out of money to pay salaries, buy additional merchandise for sale, etc.
- It is recommended that a certain percentage is included in the investment capital for unforeseen items.
- Working capital should also include additional funds for unforeseen expenses.
- The start-up capital for a new business is the sum of the expenditures for the investment items and the working capital.
- The future entrepreneur needs to have this amount of money available through using his/her own savings, finding partners and negotiating loans with banks.
- As a general rule, 30% of the start-up capital should be from the entrepreneur's own resources.

Obtaining Money to Start an Enterprise

Objective of the Lesson

At the end of this lesson Trainees will be able to:

- Identify sources of finance to start an enterprise.
- Identify the advantages and disadvantages of using various sources of capital to start an enterprise.

Rationale of the Lesson:

- Any prospective small business owners have good business ideas and plans. However, they may discover that the capital necessary to initiate their business is not readily available. Learners should be aware of the types of funds available to prospective business owners.

- Entrepreneurs will almost certainly have to invest their personal money in the business. However, some of the capital needed to begin business operations can be obtained through credit.
- This topic will identify potential sources of initial capital, and offer suggestions regarding how to prepare for obtaining debt or credit financing.

Sources of Business Financing

- There are two primary sources of financing to establish a business. These are: (a) owner's equity or (b) borrowing from lending institutions.
  - Equity financing
- It is the money the owner puts into the business.
- It is the owner's investment in the business.
- The main sources of equity financing for most entrepreneurs are:
  - personal savings
  - Family and friends
  - Partners
  - Corporation
- Financial experts say that one-half of the money needed to start a small business should come from the owner. This means future owners must work and save to have enough money to start a business.

2. Borrow from lending institutions

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

- Considerations in applying for a business loan
  - Different lending institutions have different procedures which have to be followed by the loan applicant.

- It is necessary to understand the following factors that are taken into consideration when a banker is appraising a loan application.

Type of loan
Purpose of the loan
Credit worthiness and integrity of the borrower
Capability
Repayment period
Security or collateral
Guarantors
Business plan
Customers past financial records

- A banker or loan officer will take into consideration the five C's of credit when evaluating a loan applicant:

  - Character
  - Capacity
  - Capital
  - Conditions
  - Collateral

- Criteria for evaluating loan sources

- To determine the best source for raising capital needed in a particular situation, the following five questions should be considered.

- Cost: What are the benefits of a loan in relation to its costs?
- Risk: Which loan source exposes the business to the lowest degree of risk?

3. Flexibility: Will conditions imposed by a loan source reduce flexibility in seeking additional capital, or in using capital generated through operations according to the owner's best judgment? Control:

4. Could the owner's control of the business be adversely affected? Could the loss of control prevent the entrepreneur from making operating decisions that are in the best interests of the business?

5. Availability: Which financial sources are available to the business?
6. Weighing Evaluation Criteria: Every capital source being considered should be evaluated in terms of cost, risk. Flexibility, control and availability. A decision can only be made by the prudent judgment of the owner after assembling and analyzing all relevant facts.

How will the capital be used?

- To help determine your money needs, three groups of costs and expenses are examined: start-up costs, operating expenses and personal expenses.

- Start-up costs: expenses that occur once only when starting the business. Once your business is started, you may never have these expenses again.

2.Operating expenses: until there is enough profit to keep the business running, money will be needed for operating expenses.

3. Personal expenses: these include costs that are necessary for you to live. You need money for personal expenses such as rent payments, food, transportation, insurance, clothing, utilities, medical bills and entertainment.

Equity and Debt Financing

TYPE OF FINANCING	ADVANTAGES	DISADVANTAGES
EQUITY FINANCING		
A. Using personal savings	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.
B. 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.
C. Forming a partnership	1. Easy source of cash. 2. Less pressure and restrictions. 3. Informal arrangements.	1. Risk of destroying personal relations 2. May encourage unwanted involvement in business.
D. Forming a limited company	1. Larger amount of cash raised. 2. Financial risks shared. 3. Legal liability reduced. 4. Tax savings.	1. Part of profits given up. 2. Share of control and ownership given up.
E. Forming a cooperative	1. Poor people are able to combine financial resources. 2. Financial risks shared.	1. Profits shared. 2. Financial decision-making shared.
F. Working with financial institutions	1. Set up to help small businesses. 2. Provides loans.	1. Favours expanding businesses.
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 supplied. 5. Lender may impose limitations or restrictions on borrower.

3

Information Sheet 2	Startup Capital

Managing Sales

Characteristics of Successful Salespersons

1. **Results Oriented**
2. **Highly Motivated**
3. **Self-Confident**
4. **Professional Appearance**
5. **Honest**
6. **Dependable**
7. **Knowledge of Products**

8. **Good Listener**
9. **Enthusiastic (Passionate, excited)**
10. **Pleasing Personality**
11. **Communicator**
12. **Sociable**
13. **Courteous (Polite, well-mannered)**

Qualities of Potential Customers

- **Potential customer is the most important "Very Important Person" to a business.**
- **A potential customer is not dependent on any business.**
- **Potential customers do not interrupt business activity they are the purpose of business.**
- **Potential customers are not statistics: they are human beings who have feelings and emotions like everyone else.**
- **Businesses never win an argument with a potential customer.**
- **The job of business is to cater/furnish to the potential customers' wants and needs.**

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.**
  - **Step 7: once customers do start to buy your**

product or service, develop strategies to help you to keep your customers.

✓ Research study has indicated that it costs 10 times as much to attract a new customer than it does to keep an old customer.

- Selling is a two-way communication process.
- Selling requires active listening to understand customer needs and interests.
- You have to adapt your message and communication style to the personality and buying motives of the prospective customer.
- Effective communication help to build a relationship with the customer based on trust and confidence; this forms the foundation for the present sale transaction and for future sales as well.

➢ Successful selling depends on the entrepreneur's ability to:

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

▪ The success of a business depends on the art of selling, the entrepreneur must focus not only on producing the product or service, but on selling the product or service as well.

▪ Entrepreneurs to create satisfied customers have to take advantage of the opportunity to *serve people, to satisfy their needs and to solve their problems,.*

▪ Satisfied customers continue doing business with an entrepreneur and recommend the products and services to others.

- Entrepreneurs are salespersons in the sense that they are always selling their products/services to the public.
- Entrepreneurs must maintain their sales image wherever they go and whatever they do in the community.

The Product Life Cycle

- The concept of the product life cycle describes the stages (or courses) a new product goes through in the market place.

- **In other terms, product life is the course of product's sales and profits over its lifetime.**
- **A new product progresses through five distinct stages: *introduction, growth, maturity, decline and recycling.***
- **The product life cycle has an impact on the marketing strategy and the marketing mix.**

Introduction stage

- **In this 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.**

Growth stage

- **In this 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**

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**

Decline stage

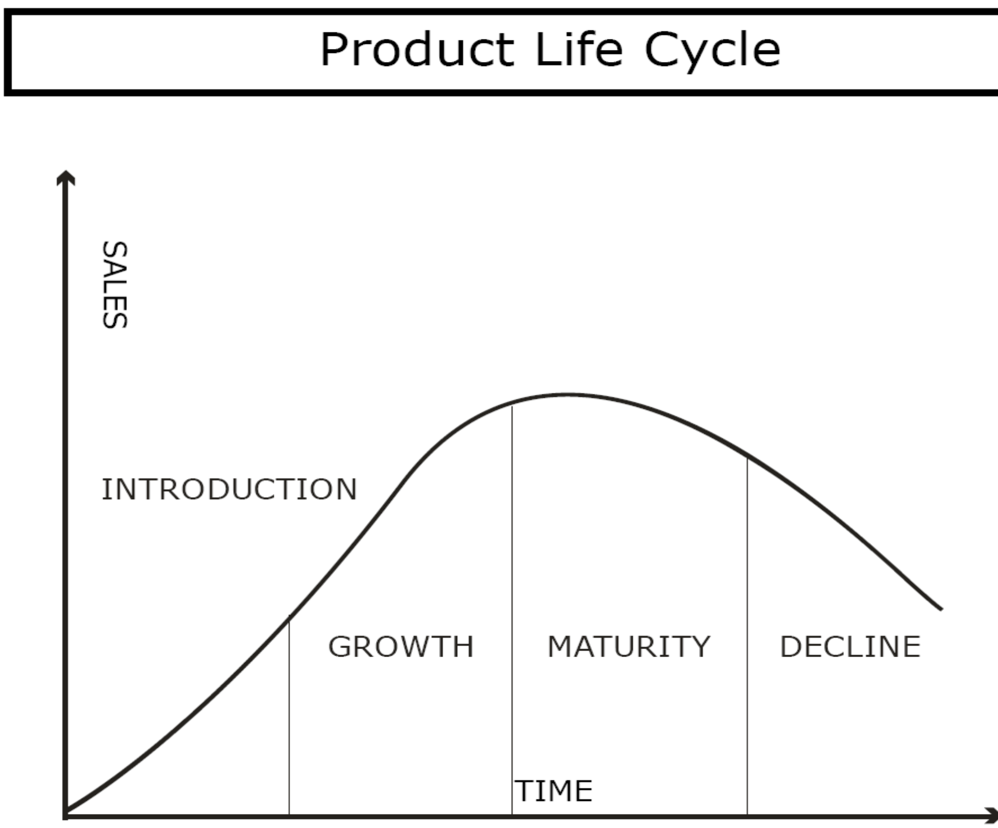
- **As sales decline the entrepreneur has different options**
  - **Maintain demand for the product by adding new features**

- **Reduce costs and prices and continue to offer the product**
- **Stop producing the product.**

Recycling

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

Product Life Cvcle



INSTRUCTION SHEET	LG43: Develop One's Own Business Plan

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

- Definition of enterprising
- Definition of entrepreneurs
- Role of entrepreneurs
- Use of enterprising

Upon completion of this Learning Guide, you will be able to –

- Analyze and discuss the principles, concept and terminology of entrepreneurship
- Identify the different / various forms of enterprises in the community and their roles
- Categorize and classify the identified enterprises
- Identify and interpret the terms and elements involved in the concept of enterprising
- Explain functions of entrepreneurship in business and how the entrepreneurs improved business and economic environment

Learning Activities

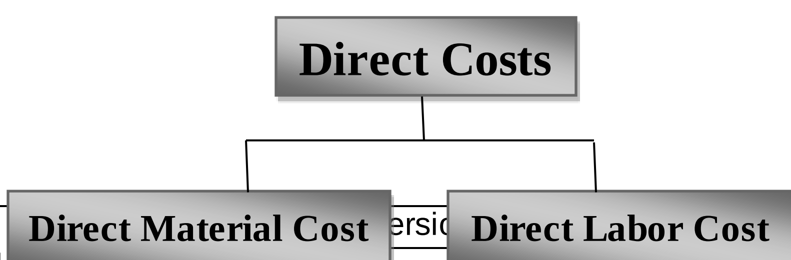
1. Read the specific objectives of this Learning Guide.
2. Read the information written in the “Information Sheets 1” in pages 3-6.
3. Accomplish the “Self-check” in page 7.
4. If you earned a satisfactory evaluation proceed to “Operation Sheet 1” in pages 8-9. However, if your rating is unsatisfactory, see your teacher for further instructions or go back to Learning Activity # 1.
5. Read the “Operation Sheet 1” and try to understand the procedures discussed.
6. If you satisfactorily performed Operation Sheet 1, proceed to “Operation Sheet 2” in pages 10-12. However, if your rating is unsatisfactory, see your teacher for further instructions or go back to Operation Sheet 1.
7. Read the “Operation Sheet 2” and try to understand the procedures discussed.
8. If you satisfactorily performed Operation Sheet 2, proceed to “Lap Test on page 13. However, if your rating is unsatisfactory, see your teacher for further instructions or go back to Operation Sheet 2.
9. Do the “LAP test” (if you are ready) and show your output to your teacher. Your teacher will evaluate your output either satisfactory or unsatisfactory. If unsatisfactory, your teacher shall advice you on additional work. But if satisfactory you can proceed to Learning Guide n.
   - Your teacher will evaluate your output either satisfactory or unsatisfactory. If unsatisfactory, your teacher shall advice you on additional work. But if satisfactory you can proceed to the next topic.

Information Sheet 1	Cost of An Enterprise

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

A. Direct costs:

- are those that only arise when an enterprise is manufacturing goods or producing a service or buying goods to resell. These costs depend directly on the number of products, services or goods produced.
- are composed of two cost sub-groups:



- Direct material costs:
  - Expenditures for all items that become part of a product, or are used to produce a service, or are bought for resale, enter into the category of direct material costs.
  - Costs linked to the acquisition of raw materials, such as transport, are included in the direct costs

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

B. Indirect costs:

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

- are also called overhead costs.
- In wholesale or retail business, all staff costs are indirect costs.

Total cost of a product or service:

Sum of Direct Material Costs

+ Sum of Direct Labor Costs

<u>+ Proportion of Indirect Costs</u>

= Total cost per product or service

Classification of Costs by Categories

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

- Other costs
- Capital costs

Staff Costs

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

2. Material costs

- All materials that are used for the manufacturing of a product, or to provide a service, fall under the category “materials”.
- Materials that are not used for a product, but are necessary for the functioning of the business, such as office supplies or detergents for office cleaning, are also counted as

material costs.

- In production, a distinction is made among different kinds of materials:
    - Raw materials, e.g. plywood, metal bars, metal sheets, leather, wool, woven fabrics, plastics, fluor, butter, etc.
    - Standard materials, e.g. nails, screws, bolts, nuts, fittings, electrical appliances, spare parts, buttons, zippers, etc.
    - Auxiliary materials, e.g. glue, paint, welding electrodes, welding gas, saw blades, grinding paper, yarn, threads, etc.
- In wholesale and retail business the costs for acquiring finished goods for reselling are classed as material costs.

3. Other costs

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

4. Capital costs

- A businessperson, who contracts a loan, has to pay interest for the duration of the loan.
- Interest is also due for an overdraft on the entrepreneur’s current account.
    - ✓ These payments are called capital costs.
- There is a very particular kind of capital cost that is called depreciation.
- Depreciation is the loss of value of machines, equipment or cars that are operating in an enterprise.

- This loss of value is a process that can last several years.
- The duration of this process depends on the type of machine.
- At the end of this process the machine, truck or vehicle needs to be replaced.
- The annual loss is considered as capital cost that allows the money that was paid for the new machine to be recuperated in order to replace it.

- How is depreciation calculated?
    - Quite simply, the price of the newly bought machine, car or whatever it may be is divided by the expected lifespan of the machine.
    - For example, a new delivery pick-up is purchased for 12,000 Birr and its calculated lifespan is five years.
    - Its annual depreciation = 12,000 Birr / 5 = 2,400 Birr/year.