



# **Basic Electrical Electronics Equipment Servicing Level I**

## **Learning guide – 57**

Unit of Competence: Develop underfunding of  
Entrepreneurship

Module Title: Developing underfunding of  
Entrepreneurship

LG Code: EEL BEE1 M14 Lo1-LG57

TTLM Code: EEL BEE1 TTLM 0919V1

**LO1. Describe and explain the principles,  
concept and scope of Entrepreneurship**



## Instruction Sheet

## Learning Guide # 57

This learning guide is developed to provide you the necessary information regarding the following learning outcome coverage:–

- ) Analyzing and discussing the principles concept and terminology of entrepreneurship
- ) Identifying different roles of enterprises in the community
- ) Categorizing, classifying and identifying enterprises
- ) Interpreting and identifying terms and elements in the concept of enterprising.
- ) Explaining functions of entrepreneurship

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 –**

- ) Analyze and discuss the principles concept and terminology of entrepreneurship
- ) Identify different roles of enterprises in the community.
- ) Categorize, classify and identify enterprises
- ) Interpret and identify terms and elements in the concept of enterprising.
- ) Explain functions of entrepreneurship in business and Economic environment

### Learning Instructions:

1. Read the specific objectives of this Learning Guide.
2. Follow the instructions described below 3 to 6.
3. Read the information written in the information “Sheet 1, Sheet 2 , and Sheet 3
4. Accomplish the “Self-check 1, Self-check 2 , Self-check 3 , Self-check 4 ,and, Self-check 5 in **page -10, 17, 20,23, and 27** respectively.
5. If you earned a satisfactory evaluation from the “Self-check” proceed to “Operation Sheet 1, in **page ----**.
6. Do the “LAP test” in **page –** (if you are ready



## 1. Introduction

### ) **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.
- ✓ By understanding the enterprising concept, all people have the potential to be enterprising.
- ✓ Some people are enterprising when they own a business.
- ✓ Enterprising society is able to deal positively with the challenges and problems they face in their daily lives.
- ✓ Being enterprising can bring benefits to you and also help you to become a valued member of your society.
- ✓ Enterprising approach can be applied to different circumstances. This kind of approach will enable you to appreciate the challenges of life

### ) **Enterprising men and women exhibit the following characteristics**

- ✓ E: Energy
- ✓ N: Need to achieve
- R: Risk-taking
- I: Innovation



- ✓ T: Task oriented
- ✓ E: Empathy
- ✓ R: Resourcefulness
- ✓ P: Planning

- S: Skills
- I: Independence
- N: Networking
- G: Goal oriented

A business enterprise is any type of operation that is involved in providing goods or services with the anticipated outcome of earning a profit. The broad nature of a business enterprise allows the term to be applied to any type of company or firm that is geared toward generating revenue by selling products of any type.

Along with the sale of goods, a business enterprise can also be involved in the sale of various types of services. Companies that offer telecommunications services are part of this category. Local businesses that offer outsourcing services such as accounting or janitorial support are also considered to be business or commercial enterprises. Courier services also qualify as an enterprise of this type

### **1.1. Terminology, principles and concepts of entrepreneur**

#### **) What Is Entrepreneurship?**

Most economists today agree that entrepreneurship is a necessary ingredient for stimulating economic growth and employment opportunities in all societies. In the developing world, successful small businesses are the primary engines of job creation, income growth, and poverty reduction. Therefore, government support for entrepreneurship is a crucial strategy for economic development.

The word 'entrepreneur' derives from the French expression 'to take up'. 'Entrepreneur' refers to the trait of taking up new ideas, products and concepts in the marketplace. They find an unfilled need in the marketplace and fill it by developing an innovative solution to it. In return they seek some sort of significant compensation; often being but not limited to financial rewards. Other compensation may be aiding in the advancement of society, and having the ability to create their own work environment.

#### **) Meaning Entrepreneur**

- ✓ Is a person who Observes the environment, Identifies opportunities in the business or non-business environment, gathers the necessary resources, Implements the activity Receives financial or social rewards
- ✓ and successfully Implements a project.



- ✓ An entrepreneur as defined at reference.com as, "a person who organizes and manages any enterprise, a business, usually with considerable initiative and risk".
- ✓ 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.

### ) **Successful Entrepreneurs:**

- ✓ Take calculated risks; they set their own objectives at a level where there is a moderate risk of failure
- ✓ Take complete responsibility for the results for what they do and not blame luck or other external circumstances
- ✓ soon realize they must focus on delivering specific goods or services to specific customers rather than trying to be all things to all potential customers.

### ) **Entrepreneurship**

- ✓ Is an organizational and management approach that enables a person to respond to change and solve problems in whatever situation s/he may find her/him self in.
- ✓ Is about an innovative action whenever one finds himself/herself in different situations of change.
- ✓ Is the process of identifying, developing and, bringing a vision to life. The
- ✓ Entrepreneurship is a continuous process of creating successful businesses and hence, accumulating wealth fast.
- ✓ It also refers to knowledge and skill that enables to create successful businesses.
- ✓ it is continuous process of identifying opportunity, mobilizing resources(money , knowledge, skill, time etc) to provide a solution to a market needs or demand.
- ✓ Is the process of creating something different with value by devoting necessary time and effort assuming the accompanying financial, psychic, and social risks, and receiving the resulting rewards of monetary & personal satisfaction and independence.

### ) **Principles of entrepreneurship**

The main principles of entrepreneurship

- ✓ Works best in an open market economy
- ✓ Promotes private enterprise



- ✓ Adds value to products and services (creates wealth)
- ✓ Providing needed products/service
- ✓ Developing new markets

## ) **Entrepreneurial motivation**

Highly motivated entrepreneurs control their environment. A positive mental attitude helps motivate them to focus on desired activities and events and the results they hope to achieve. Motivation comes from having a positive mental attitude. Entrepreneurs learn and try to get benefits from every experience they have. Motivation and having a positive mental attitude takes a long time to develop. Consider the following factors that help entrepreneurs to develop a positive mental attitude:

- ) Focus on opportunities to learn from each experience.
- ) Being involved in positive activities.
- ) Choose work objectives that are achievable and have an impact.
- ) Make friends with other entrepreneurs.
- ) Acquire the thinking, mannerisms, and characteristics of successful entrepreneurs.
- ) Have successful entrepreneurs serve as role models and mentors.
- ) Avoid negative thoughts and ideas.
- ) Take advantage of opportunities to improve your situation, whether it be your personal life, work life or life in the community.
- ) The environment affects your performance. If your environment is not appropriate to your needs, change the environment or move to another environment which is more positive and conducive to achieving desirable goals.
- ) Believe in yourself. Success comes to those who use their talents and abilities to the fullest extent.
- ) Be action oriented and results oriented. Focus on specific problems; once you have reached Decision, take action to solve the problem.
- ) Having a positive mental attitude is essential for achieving success



### 1.1.1 Concept What Makes Someone an Entrepreneur?

#### ) Why entrepreneurship?

- ✓ To improve backwardness of the people.
- ✓ Economic development of the region.
- ✓ To analysis resource utilization.
- ✓ Proper utilization of human potentiality.
- ✓ Special attention to take up new activities.
- ✓ To create self-employment and generation of employment opportunity.
- ✓ Eradication of regional imbalances.
- ✓ Better economic gain.

Who can become an entrepreneur? There is no one definitive profile. Successful entrepreneurs come in various ages, income levels, gender, and race. They differ in education and experience. But research indicates that most successful entrepreneurs share certain personal attributes, including: creativity, dedication, determination, flexibility, leadership, passion, self-confidence, and "smarts."



- ✓ Creativity is the spark that drives the development of new products or services, or ways to do business. It is the push for innovation and improvement. It is continuous learning, questioning, and thinking outside of prescribed formulas.
- ✓ Dedication is what motivates the entrepreneur to work hard, 12 hours a day or more, even seven days a week, especially in the beginning, to get the endeavor off the ground. Planning and ideas must be joined by hard work to succeed. Dedication makes it happen.
- ✓ Determination is the extremely strong desire to achieve success. It includes persistence and the ability to bounce back after rough times. It persuades the entrepreneur to make the 10th phone call, after nine have yielded



nothing. For the true entrepreneur, money is not the motivation. Success is the motivator; money is the reward.

- ✓ Flexibility is the ability to move quickly in response to changing market needs. It is being true to a dream while also being mindful of market realities. A story is told about an entrepreneur who started a fancy shop selling only French pastries.
- ✓ Passion is what gets entrepreneurs started and keeps them there.
- ✓ Self-confidence comes from thorough planning, which reduces uncertainty and the level of risk. It also comes from expertise.
- ✓ "Smarts" is an American term that describes common sense joined with knowledge or experience in a related business or endeavor.

## **) Entrepreneurs Must Be Highly Motivated**

Entrepreneurs are essential for economic development. They provide the motivation for activating and stimulating economic activity. The most developed economies are the ones that have the most entrepreneurs. A positive economic and legal environment will encourage and motivate people to become entrepreneurs and own and operate their businesses. Entrepreneurs provide the energy, creativity and motivation to initiate new businesses. Entrepreneurs seek business opportunities that will bring success by satisfying unmet customer needs. Entrepreneurs identify the needs of customers and find ways to fill those needs.

Highly motivated entrepreneurs are optimistic and future oriented. They believe that success is possible and are willing to take risks to implement a business. They are flexible and willing to change quickly as they receive new information. Entrepreneurs are persistent and determined to succeed. Motivation gives entrepreneurs advantages over their competitors.

Entrepreneurs are motivated to operate their business legally and within government regulations. Entrepreneurs use practical business procedures and they are able to accurately monitor the financial condition of their businesses. They constantly monitor sales, cash flow and revenue of their businesses.

Entrepreneurs are the most important people in a market economy because they create all wealth, jobs, and business opportunities. They bring economic prosperity to a nation. Potential entrepreneurs need to ask themselves the following questions:

- What three business opportunities can I identify today?





- How can I offer new products or services that people want, need and are willing to pay for?
- Where are the best business opportunities?
- How can I bring together people, money and other factors to create new products and services that people want?
- How can I use creativity, rather than money, to find new, better, cheaper ways to sell products or services or to reduce costs of operation?
- How can I avoid or minimize my risks to start a business?

**Self-Check -1****Written Test**

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

**I. Say “TRUE” if the statement is correct and say “FALSE” if the statement is Incorrect**

1. List the main principles of entrepreneurship (3 points)
2. \_\_\_\_\_ is a continuous process of creating successful businesses and hence, accumulating wealth fast.  
(2 points)  
A. Enterprise motivation  
B. Entrepreneurial  
C. Entrepreneurship  
D. All except “A”

**Note: Satisfactory rating - 3 and 5 points                      Unsatisfactory - below 3**

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

Score = \_\_\_\_\_  
Rating: \_\_\_\_\_

Name: \_\_\_\_\_

Date: \_\_\_\_\_



## **2.1. Understanding types of enterprises and their role**

### **2.1.1. Roles and Functions of the Entrepreneur in relation the Enterprise**

Drawing an analogy from musicology in explaining the role of the entrepreneurs in relation to their enterprise, one may say that an entrepreneur is not only the composer of the musical score and the conductor of orchestra but also a one man band. His roles and functions get much broader in scope in a developing country context like ours. Entitled 'Role and Functions of the Entrepreneur in Relation to his/her enterprise.' These elements are no sequential as the figure may convey, the entrepreneur may have to address to all these elements simultaneously. Yet, depending upon their backgrounds, the individual entrepreneur may prefer one over the other. For example, technicians tend to be over obsessed with the production aspect; those with marketing background may over emphasis creation of market. Investor type entrepreneurs may be over concerned with the returns from the project. One should resist the temptation of looking at the business only from one's own narrow perspective. Having said this, it is apt that we provide a brief description of the various issues that may be relevant at each stage.

#### **) Developing Exchange Relationships Entrepreneur in relation the Enterprise by:**

- ✓ Perceiving market opportunities
- ✓ Gaining command over scarce resources
- 3. Purchasing inputs
- ✓ Marketing of Products and responding to competition
- ✓ Political Administration
- ✓ Dealing with public bureaucracy (approvals, concessions, taxes)
- ✓ Managing human relations within the firm
- ✓ Managing customer and supplier relations.
- ✓ Management Control
- ✓ Managing finance
- ✓ Managing production
- ✓ Technology
- ✓ Acquiring and overseeing assembly of the factory
- ✓ Industrial engineering (minimizing inputs with a given production process)
- ✓ Upgrading the production process and product quality



- ✓ Introducing new production techniques and products.

**Note:** The scope of the entrepreneurial functions varies with the level of economy in which the entrepreneur operates; scale of production/operations; and entrepreneurs' comparative efficiency in utilizing managerial employees. In developed countries, entrepreneurship assumes upon themselves the responsibility of introducing innovations and after some time, pave way for the managers. In large-scale organizations, entrepreneurs provide leadership and there is a team of managers to look after specific aspects of enterprise. Likewise, those entrepreneurs who have the ability and willingness to delegate may concentrate on a select few, strategic aspects of enterprise. In terms of the process of setting up a business, therefore, an entrepreneur is on the lookout for and spots the business opportunity, assesses its value, develops it in the form of a product/service idea, assembles he resources and gets going.

### ) **Forms/ categories of enterprises**

- ✓ private Vs public
- ✓ profit Vs non-profit
- ✓ formal Vs non-formal
- ✓ individual Vs community
- ✓ local Vs foreign
- ✓ business Vs social
- ✓ small Vs large
- ✓ manufacturing Vs service
- ✓ consumer Vs industrial

### **2.1.1. The role of entrepreneur in business improvement**

#### ) **Improve the Business Environment by:**

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



Successful entrepreneurs are usually modeled as combinations of innovators (with creative and innovative flair) and managers (with strong general management skills, business know-how, and sufficient contacts). Over the years, economists have, however, described more roles of entrepreneurs.

) **Entrepreneur as risk-taker** Richard Canutillo (1680-1734) suggested that an entrepreneur is someone who has the foresight and willingness to assume risk and take the requisite action to make a profit (or loss). Canutillo's entrepreneur is forward-looking, risk-taking, alert though need not be innovative in the strict sense.

) **Entrepreneur as business manager**

Frank Knight established a boundary between management and entrepreneurship. He sees entrepreneurs in the strict sense as producers; while the great mass of population furnish them with productive services, placing their persons and property at the disposal of entrepreneurs who guarantee to them a fixed remuneration.

) **Entrepreneur as exceptional leader**

) Hans Karl Emil von Mangoldt (1824-1868) developed the notion that entrepreneurial profit is the rent of ability. He divided entrepreneurial income into three parts:

) **Entrepreneur as perceiver/restorer**

John Bates Clark (1847-1938) noted that as static conditions change over time: population grow, wants change, and improved production technologies are discovered and implemented, the mobility of capital and labor is necessary to restore new equilibrium. He sees the entrepreneur as the human agent responsible for the coordination that restores the economy to an equilibrium position.

) **Entrepreneur as innovator**

Joseph Schumpeter (1883-1950), Austrian-born professor, is famous for focusing on the entrepreneur as the central figure in advancing the wealth of nations and creating dynamic disequilibrium in the global economy. In the process of "creative destruction" (of the market system), entrepreneurs play a central role by constantly assimilating knowledge not yet in current use and setting up new production forms and functions to produce and market new products. He pointed out that knowledge underlying the innovation need not be newly discovered and may be existing knowledge that has never been utilized in production.



Therefore, the entrepreneur need not be an inventor and vice versa. He is the one who turns an invention into commercial exploitation.

### 2.1.2. Starting a Business - What is enterprise?

. There are essentially two types of enterprise:

- ✓ **Business enterprises**, which are run to make a profit for a private individual or group of individuals. This includes small business.
- ✓ **Social enterprises**, which function to provide services to individuals and groups in the community.

#### ) **Business enterprises**

- ✓ There are lots of different enterprises in your community; many are small businesses. Sometimes one person owns and runs them; sometimes they're a family business; other businesses are owned and run by partners who aren't family relations.
- ✓ People usually decide to set up small business to earn an income from producing and selling products or delivering services to individuals or other businesses.

#### ) **Social enterprises**

- ✓ Social enterprises are organizations led by local communities.
- ✓ They, too, are small businesses, but they have been set up for a social purpose. Social enterprises need to be successful just as business enterprises do, but their success is measured in terms of social rather than monetary benefits.

#### ) **Some examples of social enterprises are:**

- ✓ community-based child care centers such as merry joy in Ethiopia
- ✓ health care centers
- ✓ sports clubs such as, Saint gorge and Coffee in Ethiopia
- ✓ Meals on Wheels
- ✓ housing cooperatives
- ✓ Charities, such as Ethiopian family guidance association

### 2.2. Understanding types of entrepreneur and their role

- ✓ Entrepreneurs play a key role in any economy.
- ✓ These are the people who have the skills and initiative necessary to take good new ideas to market and make the right decisions to make the idea profitable.
- ✓ The reward for the risks taken is the potential economic profits the entrepreneur could ear

#### 2.2.1 Types of entrepreneurs

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The literature has distinguished among a number of different types of entrepreneurs, for instance:

) **Social entrepreneur**

- ✓ A social entrepreneur is motivated by a desire to help, improve and transform social, environmental, educational and economic conditions.
- ✓ Key traits and characteristics of highly effective social entrepreneurs include ambition and a lack of acceptance of the status quo or accepting the world "as it is".
- ✓ The social entrepreneur is driven by an emotional desire to address some of the big social and economic conditions in the world, for example, poverty and educational deprivation, rather than by the desire for profit.
- ✓ Social entrepreneurs act within a market aiming to create social value through the improvement of goods and services offered to the community.

) **Serial entrepreneur**

- ✓ A serial entrepreneur is one who continuously comes up with new ideas and starts new businesses. In the media, the serial entrepreneur is represented as possessing a higher propensity for risk, innovation and achievement.

**3-Lifestyle entrepreneur**

- ) A lifestyle entrepreneur places passion before profit when launching a business in order to combine personal interests and talent with the ability to earn a living.
- ) A lifestyle entrepreneur may decide to become self-employed in order to achieve greater personal freedom, more family time and more time working on projects or business goals that inspire them.

**4-Cooperative entrepreneur**

- ✓ A cooperative entrepreneur doesn't just work alone, but rather collaborates with other cooperative entrepreneurs to develop projects, particularly cooperative projects.

**2.2.2. Types of enterprises**

There are many types of business enterprises these include **international, global, multinational, and transnational firms.**

- ✓ **An international enterprise** is an organization which conducts business operations in cross national borders. International business generally is business operations of any sort by one firm which take place within or between two or more independent countries.



- ✓ **On the other hand, global organizations** are known as national firms having international operations. This means that an establish company in one country buy have an international business operations to other countries. Global companies view the world as a single unit, and global corporation's subsidiaries are guided by a global pervasive approaches and strategy. Global industries tend to provide fairly standardized and high quality products all over the world which enables the companies to exploit their savings derived from economies of scale.
- ✓ **Multinational enterprises** are companies that undertake production, research and development, finance and marketing on an international basis in more than one country. In order for an enterprise to be multinational, its activities must have a certain impact upon the economy. The management must have a global perspective and a strategy that surpasses nationalities and boundaries. The multinational enterprise must be supported by the overall system of control and organization in order to act as an entity. Materials from less developed countries.

### 1.2.2. Experiences on International definition of MSE

The MSE definition is generally consisted of three basic criteria as to other countries experience. These are:

- A. Full timer employed manpower /head count staff/.
- B. Total asset, net asset and paid capital, and
- C. Annual turnover. .And they use these criteria independently or in combination.



**Self-Check -2****Written Test**

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

**I. Say “TRUE” if the statement is correct and say “FALSE” if the statement is Incorrect**

1. The scope of the entrepreneurial functions varies with the level of economy in which the entrepreneur operates.
2. community-based child care centers such as merry joy in Ethiopia is one example of social enterprises
3. Business Environment **can not** Improve the by Creating jobs and Promoting free enterprise.
4. A serial entrepreneur is one who continuously comes up with new ideas and starts new businesses.
5. Business enterprises, which are **not** to make a profit for a private individual or group of individuals.

**Note: Satisfactory rating - 3 and 5 points**

**Unsatisfactory - below 3**

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

Score = \_\_\_\_\_

Rating: \_\_\_\_\_

Name: \_\_\_\_\_

Date: \_\_\_\_\_



### 3.1. Classifications of Enterprises

State-owned enterprises refer to non-corporation economic units where all assets are the status of enterprises is classified into three categories:

- ) **Domestic-funded enterprises**-Is an enterprises include state-owned enterprises, collective enterprises, cooperative enterprises, joint ownership enterprises, limited liability corporations, share-holding corporations, private enterprises and other enterprises
- ) **Enterprises with investment from in land**, and
- ) **Enterprises with foreign investment.**

### 3.2 Improved definition of small enterprises in ETHIOPIA based on SME strategy

Level of the enterprise	Sector	Human power	Total asset
<b>Micro enterprise</b>	Industry	$\leq 5$	$\leq 100,000$ (\$6000 or E4500)
	Service	$\leq 5$	$\leq 50,000$ (\$3000 or E2200)
<b>Small enterprise</b>	Industry	6-30	$\leq$ birr 1.5 million (\$9000 or E70000)
	Service	6-30	$\leq$ birr 500,000(\$30000 or E 23000)

When ambiguity is encountered between manpower and total assets as explained above, total asset is taken as primary yardstick

### 3.2. Concept of Enterprise

The Concept of Business The exchange of goods/services with money for mutual benefit/profit An organization that provides goods and/or services to earn profits All profit-seeking activities that are organized and directed to convert factors of production into goods and services or combination between goods and services for customers in the markets to achieve the business objective



### 3.2.1. The Concept of Enterprise Growth Strategy

Growth strategy is a holistic model for leading an enterprise for total excellence by focusing on the needs of the customer.

) **Some of the key elements of growth strategy are:**

- ✓ Support markets and products growth
- ✓ Acquire new or expand business
- ✓ Improve margin
- ✓ Increase revenue and profitability
- ✓ Reduce business cycle time

**Self-Check – 3****Written Test**

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

1. List Some of the key elements of Enterprise *Growth Strategy*( 3 points )
2. Growth strategy is a holistic model for leading an enterprise for total excellence by focusing on the needs of the customer. ( 2 points )

A.                      *True*                                      B. *False*

**Note: Satisfactory rating - 3 and 5 points                      Unsatisfactory - below 3**

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

Score = \_\_\_\_\_

Rating: \_\_\_\_\_

Name: \_\_\_\_\_

Date: \_\_\_\_\_



#### **4.1. Identification and interpretation of entrepreneurial terms and elements**

##### **4.1.1. What are the six key elements of entrepreneurship and what is the importance of each?**

###### **) Motivation & Commitment:**

It's important to get the basic ingredients of start-up right. People who are lending money look at the person first and foremost, so motivation is the most critical. You need to convince your bank manager you can make your business work because you've researched your market, you've coasted out the business and you know where you want the business to be in 5 or 10 years time. A means of showing your commitment to the business would be to save and invest money.

###### **) Abilities & skill:**

The second element is one of ability and skills. The individual has to have skills appropriate to the kind of business they're proposing to run. And if they don't have them, they should have a reliable person who can. It could be that one person knows how to run a business from an operational and management perspective, whereas another person has the technical skills to develop the product or service.

###### **) Resources:**

The third element is resources. That's not purely about money and equipment; it's also about intellectual capability. (The ability to persuade others is important. Many entrepreneurs have been able to negotiate very favorable deals against the odds, when establishing their business).

###### **) Strategy & vision:**

The fourth element is strategy and vision in terms of thinking four or five years ahead and having some idea of where that business might be in the future and putting in place a plan to achieve that goal.

###### **) Planning & organization:**

The fifth element is planning and organization. Without planning, organization, coordination and administration, the product won't get to market nor will it satisfactorily meet demand. You need to think about systems, job roles, and



quality issues, which if handled effectively, will ensure you, can satisfy the market by delivering on time and to the right place

### ) **Elements of Entrepreneurship**

- ✓ Observing the environment.
- ✓ Identifying something one can do and get benefits from.
- ✓ Gathering the necessary physical and psychological tools needed to accomplish the activity.
- ✓ Implementing the activity when ready
- ✓ Receiving rewards.

**Self-Check - 4****Written Test**

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

1. *List* the six key elements of entrepreneurship.
2. *Which one the* elements of entrepreneurship can knows how to run a business from an operational and management perspective.
  - A. Strategy & vision
  - B. Abilities & skill
  - C. Planning & organization
  - D. Receiving rewards.

**Note: Satisfactory rating - 3 and 5 points**

**Unsatisfactory - below 3**

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

Score = \_\_\_\_\_

Rating: \_\_\_\_\_

Name: \_\_\_\_\_

Date: \_\_\_\_\_



### 1.5. Functions of entrepreneurship in business

Entrepreneurship is the heart of job growth. According to the Small Business Association, small businesses started by entrepreneurs provide 75 percent of the new jobs added to the economy each year.

#### J **Function of entrepreneurship in production process**

- ✓ 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 entrepreneur is 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 resources to exploit the opportunity.
- ✓ By so doing the entrepreneur becomes the financier of the enterprise. The entrepreneur does not of course have to finance the business from personal savings alone.
- ✓ The necessary finances and other resources could be borrowed. It is therefore a function of the entrepreneur to finance the business.
- ✓ Another function of the entrepreneur is to manage the business.
- ✓ This is also a function that he/she can easily delegate to other people. But, even where other people are employed to manage the business, the ultimate responsibility for management remains with the entrepreneur.
- ✓ Management functions involve a wide range of activities such as :
- ✓ Organizing, coordinating, leading, recruiting, rewarding, evaluating, etc.
- ✓ The entrepreneur does not only manage production, but also marketing, personnel and all other aspects of the business.





- ✓ The entrepreneur also has the function of bearing the uncertainties of the risks of the business. This arises because it is the entrepreneur who provides the finances of the business. This is so even where other people may have lent the necessary finances, as is the case when one borrows from financial institutions.
- ✓ Through the entrepreneurial function, many jobs are created in the economy. In addition, wealth is made available to the individual, the community and society in general through the actions of entrepreneurs.
- ✓ Entrepreneurs also encourage competition, which is critical in sustaining free enterprise, and support a market economy system which has proved to be ideal for economic growth, social progress and the spread of prosperity among a country's population.
- 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.

#### **) 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

#### **1.5.1. Functions of entrepreneurship**

**1. Employment Creation:** Entrepreneurs create employment for themselves and other people. They are employers and assist in solving the unemployment problem.

**2. Local Resources:** When entrepreneurs utilize local resources, the value of these resources increases.



**3. Decentralization and Diversification of Business:** Entrepreneurs are able to identify business opportunities, and locate these businesses in suitable areas, including rural areas.

**4. Promotion of Technology:** By being creative, entrepreneurs are able to contribute to the utilization and development of appropriate technology.

**5. Capital Formation:** Entrepreneurship increases capital formation and investment in new and expanding businesses.

**6. Promotion of An Entrepreneurial Culture:** By projecting successful images, entrepreneurs become role models for other people.

**Self-Check -5****Written Test**

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

1. Which one of the following is **not** Functions of entrepreneurship.(2 points )

A. Employment Creation

B. Local Resources

C. Promotion of Technology

D. Capital Formation

E. None

2. List the function of entrepreneurship in production process .(5 points )

**Note: Satisfactory rating - 3 and 5 points**

**Unsatisfactory - below 3**

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

Score = \_\_\_\_\_

Rating: \_\_\_\_\_

Name: \_\_\_\_\_

Date: \_\_\_\_\_



# **Basic Electrical Electronics Equipment Servicing Level I Learning guide – 58**

Unit of Competence: Develop underfunding of  
Entrepreneurship

Module Title: Developing underfunding of  
Entrepreneurship

LG Code: EEL BEE1 M14 Lo2 - LG58

TTLM Code: EEL BEE1 TTLM 0919V1

**LO2. Discussing how to become  
entrepreneur**



This learning guide is developed to provide you the necessary information regarding the following learning outcome coverage:-

- ) Discussing and analyzing self-employment
- ) Discussing and explaining advantages and disadvantages
- ) Identifying and discussing entrepreneurial characteristics
- ) Assessing self-potential
- ) Identifying and explaining major competences

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 analyze self-employment as an alternative option for an individual economic independence and personal growth
- ) Discuss , explain and identify advantages and disadvantages Entrepreneurial characteristics and traits.
- ) Identify and discuss entrepreneurial characteristics and traits.
- ) Assess self-potential
- ) Identify and explain major competences of successful entrepreneurship.

**Learning Instructions:**

1. Read the specific objectives of this Learning Guide.
2. Follow the instructions described below 3 to 6.
3. Read the information written in the information “Sheet 1, Sheet 2 , and Sheet 3
4. Accomplish the “Self-check 1, Self-check 2, Self-check 3 , Self-check 4 and, Self-check 5 **in page -35, 42, 50,54, and 59** respectively.
5. If you earned a satisfactory evaluation from the “Self-check” proceed to “Operation Sheet 1, **in page ---**.
6. Do the “LAP test” **in page –** -(if you are read.



Information Sheet-1	Discussing and analyzing self-employment as an alternative option for an individual economic independence and personal growth
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### 1.1. Introduction Understanding self employment

✓ **Self-employment** is an activity where individuals create their own employment opportunities by creating a business. Have each group interpret their understanding of the statement. They have a member of each group report their findings to the class. Self-employment is 'starting and running a successful business or social enterprise'. Many famous companies began this way as visionary men and women patented an invention, created a company or registered a brand. Although an excellent business idea plays a key role in the ultimate success of a business the application of the idea will ultimately decide its fate.

) **Self-employment** is sometimes the only option if you wish to pursue a specific career path. Journalism, certain legal and medical professions, and the creative and performing arts

Are all sectors where self-employment or freelance work is the typical mode of operation?

) **For some people, it is a lifestyle choice achievable by:**

- ✓ setting up a business, either on a full-time basis or alongside a part-time job;
- ✓ working as a freelancer or contractor;
- ✓ Buying into a franchise.

) **Reasons why people choose self-employment may also include:**

- ✓ the desire to sell their skills and/or expertise;
- ✓ the desire to prove an idea;
- ✓ because they relish the challenge;
- ✓ wanting to generate a second income stream;
- ✓ reaction to an ill-informed first career decision;
- ✓ peer or family pressure;
- ✓ a feeling that there are no other options.

## 6. Self-employment has its benefits and risks.

) **The benefits**

- ✓ Freedom
- ✓ Being your own boss
- ✓ Earning more money (possibly becoming rich)



- ✓ Working fewer hours
- ✓ Independence
- ✓ Variety and choosing work you enjoy

## ) **The risks**

The more glamorous aspirations attached to self-employment take years of hard work and commitment to achieve. It is this realization that provides the biggest shock to most people who decide to work for themselves. This may cast some light on why only one in three business start-ups in the UK succeed in the first three years of business.

### **1.3. Importance of Self employment:**

Though there are many benefits of self employment, the first thing that comes to our mind is financial security. There are also many other advantages you avail when you are your own boss.

- ✓ **Here are few points that shows the importance of self employment,**
- ✓ Understanding money's real value
- ✓ Knowing that your skills are good enough that others will buy
- ✓ Option for retirement savings
- ✓ Expense deduction
- ✓ High risk, high reward.

#### **1.3.1 Need of Self employment**

Being self employed is not that easy. Though there are many advantages of becoming your own boss, but on the other side the responsibilities you need to handle will also be huge.

There are few traits that you need to possess for becoming self employed. Some of them are,

- ✓ Need to be flexible
- ✓ Need to be self motivated initiator
- ✓ Look out for opportunities and pursue them
- ✓ Need to plan ahead
- ✓ Put in a constant and consistent effort

For more information on self employment, you can refer to this article (pdf file): <http://download.nos.org/srsec319new/319EL25.pdf>

## ) **Reasons for Wage Employment or Going into Business**

- ✓ Economic – to earn more money
- ✓ Psychological – to feel useful and needed



- ✓ Social – to be with people
- ✓ Critical incidents – Shocks
- ✓ Practical reasons – Rational
- ✓ 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,
- ✓ 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 togetherness.

### **3. ABSTRACT PERSONAL REASONS (Economic, Psychological, Sociological)**

Some of the abstract, personal reasons include:

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

## **1.4. Entrepreneurial Self-Management**

**1. Complete High Priority Tasks First.** Most people do the easy tasks first. What often happens, however, is that difficult tasks don't get done because too much time is spent doing the easy tasks. You may run out of time to do the difficult tasks.





**2. Use of Time.** Ask yourself, “What is the most important use of my time right now?” Asking this question will help focus on “important tasks.”

**3. Delegate Tasks to Subordinates.** This is an essential task for entrepreneurs. Entrepreneurs must be able to delegate work to staff. Delegating tasks is a good way to build staff morale and allows the entrepreneur to focus on other essential tasks.

**4. Group Tasks.** This step will minimize interruptions and economize on the utilization of resources and efforts. For example, instead of making calls sporadically throughout the day, make out-going calls at specific times each day.

**5. Maintain a Clean Office.**

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

**6. Be Ready to Say “no!”** If staff can have you do their work, they will do it. Most stress comes from the entrepreneur’s lack of the skill to “just say no” for fear of upsetting people. People are always asking for of an entrepreneur’s time.

**7. Have Daily Objectives.** Those entrepreneurs who accomplish the most during the day know exactly what they want to accomplish. However, many people think that goals and objectives should only be prepared on a monthly or yearly basis. Define objectives as clearly as possible. One factor that marks successful entrepreneurs is their ability to work out what they want to achieve and have written objectives that they can review constantly. Long- term objectives should impact on daily activities and be included on a daily “to do” list.

**8. Don’t try to do too much.** Many entrepreneurs feel that they have not accomplished enough and don’t give themselves enough time to do important tasks properly.

**9. Control Paper Flow.** Deal with each piece of paper just once. Being a paper shuffler wastes time. Keep important papers and throw away the rest.

**10. Plan Effectively.** Some people say they don’t have time to plan. These individuals may be very busy, but they probably are not very effective.

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



### 1.4.1. Self-employment versus paid employment

#### ) Self-Employment

##### **Advantages**

1. Leads rather than follows
2. Can implement ideas
3. Can be creative
4. Potential income unlimited
5. Independence
6. Can take initiative
7. Controls work environment
8. Gives orders
8. Uncertain future
9. Learning never ends
10. Hard to delegate work
11. Too much paperwork
12. Dependent on employee actions

##### **Challenges**

1. Long, irregular hours of work
2. Broad responsibility
3. Must take risks
4. Income not stable or guaranteed
5. No fringe benefits
6. Always involved in finances
7. Time constraint

#### ) Paid Employment

##### **Advantages**

1. Specific (or fixed) responsibilities
2. Steady income
3. Fringe benefits
4. Fixed hours of work
5. More certain future
6. Set span of control
7. Minimal risks

##### **Challenges**

1. Follows orders
2. Ability not easily recognized
3. Set income
4. Limited responsibility
5. Difficulty to implement ideas
6. Dependent on the employer

**Self-Check -1****Written Test**

**Directions:** Answer all the questions listed below.

1. *List Advantages and Challenges of Self-employment versus paid employment.*( 3 Points )
2. *Which one of the following points that shows the importance of self employment. ( 2 Points )*
  - A. Understanding money's real value
  - B. Knowing that your skills are good enough that others will buy
  - C. Option for retirement savings
  - D. Expense deduction
  - E. Look out for opportunities and pursue them
  - F. All except "E"
3. *Which one of the following **are not** traits that you need to possess for becoming self employed.*  
( 2 Points )
  - A. Expense deduction
  - B. Need to be self motivated initiator
  - C. Look out for opportunities and pursue them
  - D. Need to plan ahead

**Note: Satisfactory rating - 4 and 7 points**

**Unsatisfactory - below 4 points**

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

Score = \_\_\_\_\_  
Rating: \_\_\_\_\_

Name: \_\_\_\_\_

Date: \_\_\_\_\_



## **2.1. Introduction to the Advantages and constraint of Self-Employment**

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.

### 2.1.1. Merits or Advantages of Self Employment:

As an employee you will always be governed by someone superior to you and would always be commanded around. This can be said as disadvantages of being an employee.

Self employment is for people who hate to be bossed around and are talented enough to generate salary by selling their expertise independently. Let us look at some of the need of self employment and benefits of self employed.

#### 1. You are your own boss:

*Do you hate that some lame person who is not as talented as you are is governing you?*

*Do you hate the feeling of being told what to do and how to do all the time?*

Well it is time for you to start your journey from a salaried job to becoming self-employed where you are your own boss. You would be more pleased with what you do and hence lead a content life personally.

It is important to be happy and content with what you do that helps you lead a life with luxury. This is one of the advantages of self reliance.

#### 2. More opportunities to earn money:

Being self-employed, you can earn more than what you can when you were a salaried person, as the company deductions are not included in your earnings and you get what you receive.

You can start with the basic charges and slowly raise your rates based on the positive reviews that you receive for your work. The opportunities will knock on your door if you can give your clients what they want.

It is important to build good reviews as it puts an extra weight on the rates that you are quoting.



### 3. There is less investment:

You can save a lot of your daily expenses based on the work that you choose. You save on gas as you work from the comfort of your home and thus avoiding the lengthy commutes to your workplace like you used to.

Getting up early for meetings and hence going on expensive lunch outs can also be avoided and you can get to have a healthy and delicious home cooked food.

Leaving your kid behind with a day care and wondering how your kid's day has been could be taking an emotional toll on you.

One of the benefits of self employment is that you can divide time for your family and profession without taking anything else for granted and maintain a good work life balance. You can also save on the expensive day care an expense that adds on to your daily needs.

### 4. Variety of projects that you can execute:

When you are working in a corporate firm, your roles and responsibilities are defined and you are asked to work within a framework.

The structure does not allow you to explore other options that are creative and innovative as you need to stick to the designed solution as agreed upon by the seniors and clients.

Being a freelancer you can select new challenging projects pushing yourself to innovate and evolve at every step and hence, giving you the job satisfaction.

## 2.2. Constraints of Working for Your Self (Disadvantage)

In addition to knowing the advantages of self-employment, you should also be familiar with the disadvantages: **possible loss of invested capital, uncertain or low income, long hours and routine chores.**

- A. **Possible loss of invested capital:** One risk of being self-employed is the possibility of losing your invested capital. The term invested capital refers to the money the entrepreneur put into starting the enterprise. As a general rule, the riskier of the business, the greater the profit potential . If the enterprise succeeds, profits may be high. If the business fails, invested capital may be lost; the entrepreneur stands to lose a lifetime of personal and family savings. It may take years to repay banks, suppliers and individuals who loaned the money to get the business started.
- B. **Uncertain or low income:** Another disadvantage of owning your business is the possibility of uncertain or low income. Unlike the salaries of employed



workers, profits usually vary from one month to another.

- C. **Long business hours:** Entrepreneurs do not work just forty hours a week; they do not punch time clocks. Many self-employed persons work fourteen or more hours a day, six or seven days a week. The owner is often the first to arrive at the business in the morning and the last to leave at night.
- D. **Routine chores:** Running your own business may involve routine chores you do not like to do.
- E. **Risks:** You stand the best chance of success if you are prepared to take calculated risks. Risks allow you to estimate the chances of failure or success without taking a gamble.
- F. **Time involvement:** Starting a small business takes a lot of hard work. In fact, it may consume most of your waking hours in the first few years. But in the long run, work effort and personal involvement on the part of a small business owner can vary greatly.
- G. **People contact:** There are really three types of people contact in a small business: contact with customers, with employees, and with suppliers. Most small business owners don't mind the contact with employees and suppliers, since the owner is usually on the most comfortable side of the relationship. The owner-customer relationship, however, differs greatly depending on the type of business you're in. Many businesses have a much more impersonal sales approach.



Self Employment	
ADVANTAGES	CHALLENGES
1. Leads rather than follows	1. Long, irregular hours of Work
2. Can implement ideas	
3. Can be creative	2. Broad responsibility
4. Potential income unlimited	3. Must take risks
	4. Income not stable nonguaranteed
5. Independence	5. No fringe benefits
6. Can take initiative	
7. Controls work Environment	6. Always involved in finances
8. Gives orders	7. Time constraint
	8. Uncertain future
	9. Learning never ends
	10. Hard to delegate work
	11. Too much paperwork
	12. Dependent on employee
	Actions
Paid Employment	
ADVANTAGES	CHALLENGES
1. Specific (or fixed) responsibilities	1. Follows orders
2. Steady income	2. Ability not easily recognized
3. Fringe benefits	3. Set income
4. Fixed hours of work	4. Limited responsibility
5. More certain future	5. Difficulty to implement ideas
6. Set span of control	6. Dependent on the employer
7. Minimal risks	





### **2.2.1. Demerits or Disadvantages of Self Employment:**

Every setup comes with advantages that we discussed above and also with disadvantages. As an individual, we need to take a call and move on the path of self employment accepting all the pros and cons of the setup.

Let us now look at some of the disadvantages of the self employment.

#### **1. Paying more taxes:**

Even if you're a sole person working as a freelancer you would realize that freedom from corporate world does come with a price.

You would end up paying a little more taxes than you used to as a corporate employee. You would be responsible for filing your taxes on time.

#### **2. No more paid leaves:**

There will be no more paid leaves for you. As a freelancer if you are working on daily requirements and have taken few days off then there is a possibility of you missing out on those requirements and hence on the monthly payment.

You need to keep in mind that as a freelancer there is nothing called as paid leave.

#### **3. Multitasking all the time:**

Since you are working as a freelancer, you will have all the responsibilities of getting the project, executing it and closing it.

You would be responsible from head to toe till you start employing other freelancers or employees to your business.

#### **4. Unsteady Pay:**

There is no guarantee that every month you would be getting a minimum of say 1000 bucks. Some days or months you will earn exceptionally well while you can also end up with no payment at all as you had no projects in hand.

You need to be ready to face the unsteady pay structure of being a freelancer and plan your finance accordingly. You need to be prepared for the month where there would be minimal payment or no payment at all.

#### **5. Socially you are isolated:**

Being on your own comes at a price of being socially isolated. If you are working alone then there would be no social gatherings like that of corporate jobs. There will be no social contacts or friends that you could make through your workplace.

**Self-Check -2****Written Test**

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

1. List the Merits or Advantages of Self Employment in business .(3 points)

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2. Which one of the following **is not** disadvantages of the self employment.(2 points)

- A.** Paying more taxes                                      **B.** More opportunities to earn money  
**C.** No more paid leaves                                      **D.** Multitasking all the time:

**Note: Satisfactory rating - 3 and 5 points                      Unsatisfactory - below 3**

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

Score = \_\_\_\_\_  
Rating: \_\_\_\_\_

Name: \_\_\_\_\_

Date: \_\_\_\_\_



### 3.1. Introduction to Identifying and discussing entrepreneurial characteristics

#### 3.1.1. Entrepreneurial Characteristics and traits

Here are characteristics that are found within all successful entrepreneurs

- and without which most people will fall short of what it takes to succeed in an entrepreneurial enterprise the list might include the following characteristics:

#### ) **Confident**

- ✓ **Confidence** is a hallmark of the entrepreneur. Not all of us are born with confidence, but that does not mean we are not capable of it. Many confident women and men gain their sense of self esteem and faith in their ability to greet challenges by acting – even when they lack the confidence – and then gaining strength and belief in them by seeing the results and gaining the praise and respect of others.

#### ) **Feels a Sense of Ownership**

- ✓ **Taking responsibility for getting things done** – and doing them with care and attention – means to act like an owner. Rather than viewing a problem as someone else's, the entrepreneur sees it as his or her own and takes pride in finding a solution, leaving things in better shape than they were before encountering them, and improving upon situations rather than leaving them unattended.
- ✓ While a sense of ownership makes for a stellar employee, the entrepreneur knows that the goal is not to be owned by the enslavement of too much responsibility. Rather than controlling situations in an attempt to possess them, the entrepreneur teaches other people how to take charge. In that way the clever entrepreneur uses individual accountability in the ultimate pursuit of profitability, teamwork, and overall success.

#### ) **Able to Communicate**

- ✓ Entrepreneurs recognize that the most important part of any business is the human element. Human resources – whether in the form of clients, employees, or strategic partners – are what makes or breaks a business, and communication is the key to successful relationships with people. The



entrepreneur works to hone communication skills, whether those are written, spoken, or non-verbal messages conveyed through body language. And to support communication, he or she will take advantage of all available tools and resources. Those might include foreign language or public speaking classes, computer and telecom technology, search engine optimization or neuro-linguistic programming as it relates to sales and marketing, or specialized writing such as that needed for grants, business proposals, mission statements, or policy manuals. Above all, the entrepreneur develops a keen ability to listen and hear what others are trying to say, because the best communicators got that way by first being the best listeners.

### ) **Passionate about Learning**

Entrepreneurs are often “autodidactic” learners, which means that much of what they know they learned not in a formal classroom setting but instead on their own by seeking out information, asking questions, and doing personal reading and research. They also are quick to learn from their own mistakes, which mean they are less prone to keep repeating them due to arrogance, ego, or blindness to one’s own faults, shortcomings, or errors in judgment.

To teach is to learn. And to lead, train, and impart experience to others the entrepreneur is constantly striving to learn more and get better educated. Because of the passion for education, true entrepreneurs surround themselves with people who either know more than they do or know things that are different from what they know.

They entertain the views of others and perspectives that may be unlike their own, for instance, in order to be better students of human nature. In this way they continue to enrich themselves with knowledge while also making a concerted effort to grow that knowledge by sharing it with others who are also front row students of life’s valuable and unlimited lessons.

### ) **Team Player**

Those who go into business for themselves but do not utilize teamwork wind up without the team but still have all the work to get done. They shoulder the whole burden for themselves, and wind up just trading their old job for a new and more demanding one – in an



attempt to be self-employed. But the new venture carries greater personal and financial risks.

On the other hand, team players know how to succeed by employing the physics of interpersonal synergy and dynamic relationships. One twig can be easily snapped, but a bundle of those small twigs becomes stronger than the sum of its individual parts and can be impossible to bend, much less break. The same goes for businesses, and successful entrepreneurs leverage teamwork to get the heavy lifting done without breaking stride.

### ) **System-Oriented**

Like mathematical formulas, good systems allow us to reproduce great results every time – with less and less exertion of energy or resources. Entrepreneurs rely upon systems before they rely upon people, and they look for system based solutions before searching for human resource solutions. If the person gets the job done but falls sick or leaves, the job is threatened. But if a system is created to get the job done, anyone can step in and follow the blueprint to get the desired result. Similarly, when troubleshooting and problem solving, the entrepreneur will first examine and study the system – because a flaw in the system will produce a flawed outcome each and every time. Designing, implementing, and perfecting systems is one of the most useful and rewarding skills of an entrepreneur.

### ) **Dedicated**

Entrepreneurs dedicate themselves to the fulfillment of their plans, visions, and dreams, and that tenacity of purpose generates electricity throughout the whole organization. One of the biggest reasons that companies fail is because they lose focus.

- ✓ Target a goal, clarify the objective, refine the brand, and narrow the margin of error. Regardless of what the effort might involve, an entrepreneur brings a single-minded dedication to the task by being committed to a positive outcome and ready and willing to do the needful. No matter what that might mean in terms of rising to meet a challenge or acting above and beyond the call of duty, the entrepreneur shows steadfast dedication.

### ) **Grateful**



Being grateful for what we have opens us up to receive more, and one reason that is true is because those who are grateful appreciate what they are given. They respect it and nurture it. They do their best to make it grow instead of allowing it to dwindle away due to neglect.

Entrepreneurs learn to take nothing for granted in this world. That gives them the agility and flexibility to adapt to changes and demands, while it also invests in them a thankfulness that reminds them that riches and wealth are not about “stuff”, but are about fulfillment, satisfaction, and the pleasure that comes from one’s accomplishments and contributions.

### ) **Optimistic**

A positive outlook is essential for the entrepreneur, who learns to see setbacks as bargain priced tuition for the valuable business lessons gained through firsthand experience.

Past shortcomings, failures, or disappointments are relegated to the past so that they cannot continue to haunt the present or obstruct the future. And when things go right and business prospers, this further fuels the optimism and positive mindset of an entrepreneur, helping to give impetus and momentum for greater accomplishments and increased hopefulness.

### ) **Gregarious**

Because business is all about people, entrepreneurs tend to be socially outgoing. They get excited about sharing ideas, products, and services, and that excitement is contagious to their employees, clients, friends, and other contacts both within and beyond the business sphere. But women and men who work hard as entrepreneurs also relish the unique opportunity to have fun doing something that they love as their primary vocation.

Human resource experts, career counselors, and business psychologists all agree that those who do jobs they enjoy and are good at have higher rates of success and broader measures of satisfaction. Entrepreneurs know that firsthand, from their own experience, and they tend to be a fun-loving group of people both on and off the job.

### ) **A Leader by Example**

Entrepreneurs not only lead themselves through self-motivation as self-starters who jump into tasks with enthusiasm, but they are also skilled at leading others. They know the importance of teamwork, and they understand the need to appreciate others, support them, and reward them accordingly.



True leaders do not become indispensable, otherwise things fall apart in their absence and they can never rise to the highest level of entrepreneurial freedom and prosperity.

### ) **Not Afraid of Risk or Success**

Many people could be successful if they only took chances. And many people who do take chances and become somewhat successful find the realization of their dreams an overwhelming possibility, so they sabotage their continued success by retreating back into a comfort zone of smallness.

As discussed earlier, the employee mindset is preoccupied with a need for security. Those who cling to what is familiar to them – even if it means the denial of their dreams – lack the perseverance and ambition that the real entrepreneur exhibits.

Entrepreneurs are not immune to fear. But they prioritize their approach to life so that the fear of failure, frustration, boredom, drudgery, and dissatisfaction far outweighs the lingering fear of success.

- |                               |                             |
|-------------------------------|-----------------------------|
| ✓ Independent                 | - Originality of thought    |
| ✓ Builds on strengths         | - Innovative and creative   |
| ✓ Resourceful                 | -Committed                  |
| ✓ Versatile and knowledgeable | -Gets along with others     |
| ✓ Responsive to feedback      | -Achievement-oriented       |
| ✓ Builds for the future       | - Persistent and determined |
| ✓ Willing to listen           | -Hard working               |
| ✓ Energetic and forceful      | -Perceptive                 |
| ✓ Goal-oriented               | -Risk-taker                 |
| ✓ Accepts challenges          | -Decision-maker             |
| ✓ Sees broad picture          | -Mentally well-organized    |
| ✓ Understands self            | -Reliable, has integrity    |

#### **3.1.2. Important Entrepreneurial Traits**

) **Hard Working:** running a business requires a lot of energy and drive. This involves the ability to work for long hours when necessary, to work intensely in spurts and to cope with less than a normal amount of sleep.

) **Self-Confident:** to succeed, entrepreneurs have to believe in themselves and in their ability to achieve the goals they have set for themselves. This is often shown by a belief that “if you want something badly enough and are prepared to work at it, you’ll usually get it”.





- ) **Builds for the Future:** the goal for most successful business people is to build a secure job and income for themselves which is based on their own abilities. This means entrepreneurs understand that it may take several years to build up business income to a reasonable standard.
- ) **Profit-Oriented:** interest in generating money is a clear indicator of an entrepreneur's suitability for being a business owner. This means recognizing that the business comes first. Once profits are generated, the entrepreneur can make decisions about how the profits can be used – to expand the enterprise or for personal use.
- ) **Goal-Oriented:** success in business depends upon being able to set realistic goals or targets and to work with determination to achieve them. This ability to set goals (for things the person thinks are worthwhile) and to work to achieve them is fundamental to being an entrepreneur.
- ) **Persistent Determination:** all businesses have their problems and disappointments. Being persistent in solving a problem is one of the keys to being a successful entrepreneur.
- ) **Copes with Failure:** all business ventures inevitably contain disappointment and failures as well as successes. Coping with failures involves recognizing these failures, learning from them and seeking new opportunities. Without this characteristic, early failures may end a person's attempt at self-employment.
- ) **Responds to Feedback:** entrepreneurs are concerned to know how well they are doing and to keep track of their performance. Obtaining useful feedback and advice from others is another important characteristic of entrepreneurs.
- ) **Demonstrates Initiative:** research shows that successful entrepreneurs take the initiative and put themselves in positions where they are personally responsible for success or failure.
- ) **Willing to listen:** the successful entrepreneur is not an inward looking person that never uses outside resources. Self-reliance does not exclude the ability to ask for help when needed from such people as bank officials, accountants and business advisers. Being able to listen to the advice of others is a key characteristic of an entrepreneur.
- ) **Sets Own Standards:** setting standards of performance and then working to achieve them is another indicator of a successful entrepreneur. These standards can be income, quality, sales or product turnover. Most entrepreneurs want to do





better each year, to set and achieve higher standards from year to year.

- ) **Copes with Uncertainty:** being an entrepreneur is much more uncertain than employment. This uncertainty is about sales and turnover, but it often also exists in other areas such as material delivery and prices, and bank support. An ability to cope with this uncertainty without becoming too stressed is a necessary trait of being an entrepreneur.
- ) **Committed:** starting and running an enterprise demands total commitment by the entrepreneur in terms of time, money and lifestyle. It has to be a major priority in the entrepreneur's life.
- ) **Builds on Strengths:** successful business people base their work upon the strength(s) they have, such as manual skills, interpersonal skills, selling skills, organizational skills, writing skills, knowledge of a particular product or service, knowledge of people in a trade and ability to make and use a network of contacts.
- ) **Reliable and Has Integrity:** the qualities of honesty, fair dealing and reliability in terms of doing what one has promised to do are essential traits of an entrepreneur.
- ) **Risk-Taker:** being an entrepreneur involves some risks. Entrepreneurs have the ability to take measured or calculated risks. Such risks involve working out the likely costs and gains, the chance of success and the belief in oneself to make the risk pay off. Entrepreneurs may be considered risk avoiders when they reduce their risks by having others assume part of the risk. Those who assume the entrepreneur's risk may be bankers, suppliers and customers.
- ) **Honesty and Honor -** Another very important mark of a good entrepreneur is being honest and honorable in all business dealings and interpersonal relationships - whether it is between business partners, employees, peers or investors.

**Self-Check -3****Written Test**

**Directions:** Answer all the questions listed below.

1. List Entrepreneurial Characteristics to become an entrepreneur.(3 points )
2. Which one of the following **is not** the Important Entrepreneurial Traits? (2points)
  - A. Builds for the Future
  - B. Profit-Oriented
  - C. Responds to Feedback
  - D. Demonstrates Initiative
  - E. None

**Note: Satisfactory rating - 3 and 5 points**

**Unsatisfactory - below 3**

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

Score = \_\_\_\_\_

Rating: \_\_\_\_\_

Name: \_\_\_\_\_

Date: \_\_\_\_\_



Information Sheet-4	Assessing self-potential to become future entrepreneur
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#### 4.1. Assessing self-potential to determine if qualified to become future entrepreneur

##### ) Who is an entrepreneur?

- ✓ He is a person who develops and owns his own enterprise
- ✓ He is a moderate risk taker and works under uncertainty for achieving the goal.
- ✓ He is innovative
- ✓ He peruses the deviant pursuits
- ✓ Reflects strong urge to be independent.
- ✓ Persistently tries to do something better.
- ✓ Dissatisfied with routine activities.
- ✓ Prepared to withstand the hard life.
- ✓ Determined but patient
- ✓ Exhibits sense of leadership
- ✓ Also exhibits sense of competitiveness
- ✓ Takes personal responsibility
- ✓ Oriented towards the future.
- ✓ Tends to persist in the face of adversity
- ✓ Convert a situation into opportunity

##### ) A growing number of employees are becoming dissatisfied with paid employment for a

###### Variety of reason:

- ✓ They dislike following orders
- ✓ Their abilities are not being recognized
- ✓ Income is at a set level
- ✓ Their responsibility is limited
- ✓ Implementation of their own ideas is difficult
- ✓ They are unhappy about dependency on their employer

##### ) Dissatisfied employees may seek new opportunities to become self-employed.

###### They tend to go into business for themselves for a variety of reasons:

- ✓ Independence – they want to be their own boss
- ✓ Immediate need for a job



- ✓ They want to supplement employment income
- ✓ They want to develop a business for their children
- ✓ They want to make more money than they make as an employee
- ✓ They want to have an opportunity to prove their ability

) **Although the term entrepreneur is generally used to describe a person who is self-employed, being an entrepreneur is more than a job or a career, it is a lifestyle.** You should, therefore, look at your personal qualities in a realistic manner. Responses to the following questions will give some indication as to your entrepreneurial abilities:

- ✓ Are you usually self-motivated and willing to work hard to achieve goals?
- ✓ Do you work well with other people?
- ✓ Within a group of people, do you usually assume a leadership role?
- ✓ Are you able to communicate well with others?
- ✓ Are you a good listener?
- ✓ Do you have self-confidence?
- ✓ Do you have a positive self-image?
- ✓ Are you decisive when making decisions?

The more **YES** responses you have to the above questions, the more entrepreneurial you may be.

#### **4.2. Types of self-potential qualifications to become future entrepreneur**

- ) An entrepreneur initiates an enterprise or idea, typically in business, and accepts full responsibility for the outcome.
- ) Entrepreneurs often identify a market niche within a given sector and exploit it for profit. The French economist, Jean-Baptiste Say, first coined the term around 1800.
- ) Entrepreneurs are considered to be essential individuals in a Capitalist society.

#### **) Market Knowledge**

- ✓ Entrepreneurs know customer desires. They research purchasing trends of key demographics and view the market for their products through customers' eyes.
- ✓ An entrepreneur should be skilled in identifying an opening and quickly gathering resources to fill it. Rather than looking at the current state of a key market or business model, he looks to the future and adapts his business strategy to allow for shifting trends.



## ) **Resilience**

- ✓ Successful entrepreneurs tend to be independent thinkers and resilient in their pursuit of an objective. They are self-reliant, self-confident and passionate about their work, even when times are bad, as indicated as the Mentors, Ventures and Plans website. They harbor strong beliefs that often go against traditional thinking.
- ✓ An entrepreneur should be aware of potential risks and rewards and be strong-minded enough to cope with failure.

**Self-Check -4****Written Test**

**Directions:** Answer all the questions listed below.

1. Which one of the following the Variety of reason **is true for the** growing number of employees to becoming dissatisfied with payments.( 2 point)

- B. They dislike following orders
- C. Their abilities are not being recognized
- D. Income is at a set level
- E. Their responsibility is limited
- F. Implementation of their own ideas is difficult
- F. All of the above

1. list the types of self-potential qualifications to become future entrepreneur.( 3 point)

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**Note: Satisfactory rating - 3 and 5 points**

**Unsatisfactory - below 3**

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

Score = \_\_\_\_\_

Rating: \_\_\_\_\_

Name: \_\_\_\_\_

Date: \_\_\_\_\_

**5.1. Identification of major entrepreneurial competences**

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

- ) A body of **knowledge**
- ) A set of **skills**
- ) A cluster of **traits**

**A. Knowledge:**

Has been defined as a set or body of information stored, which may be recalled at an appropriate time.

Knowledge in the context of business may be manifested by information on, or familiarity with aspects such as:

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



## **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**

- ✓ Engineering
- ✓ Computing
- ✓ Carpentry
- ✓ Mechanics
- ✓ Catering

### **) Managerial**

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

**N: B.** Knowledge and skills are relatively easy to acquire or develop. By contrast, traits take time.

## **C. Trait**

- ✓ **Trait** has been defined as the aggregate of peculiar qualities or characteristics which constitutes personal individuality.
- ✓ In a cross-cultural study of India, Malawi and Ecuador, 14 personal entrepreneurial characteristics (PECs) which appear to depict the behavior of successful entrepreneurs were identified.
- ✓ It is more likely than not that a person who does not have all 3 competencies in his/her business will encounter difficulties in operating the venture successfully.
- ✓ **What would happen if a person had?**

### **A. Knowledge and skills only**

- ✓ An individual with only knowledge and skills is unlikely to survive for long, even if he/she manages to start at all. For example, without the traits, he/she might exhibit little persistence when faced with major obstacles; or the person may





not see nor act on opportunities; or he/she might simply be unwilling to take the calculated risk of venturing into business in the first place.

### **B. Knowledge and traits only**

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

### **C. Skills and traits only**

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

## **5.2. Competencies for Successful Entrepreneurship**

### **✓ A successful entrepreneur:**

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

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

### **) Knowledge and skills only**

- ✓ An individual with only knowledge and skills is unlikely to survive for long; even if he/she manages to



start at all. For example, without the traits, he/she might exhibit little persistence when faced with major obstacles; or the person may not see nor act on opportunities; or he/she might simply be unwilling to take the calculated risk of venturing into business in the first place.

) **Knowledge and traits only**

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

) **Skills and traits only**

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

### **5.3. Risk assessment and their management**

Risk assessment is defined as the identification and characterization of the nature of existing and potential adverse effects to humans and the environment resulting from exposure to environmental hazards. Risk is a function of the probability of an event occurring and the degree of damage that would result should it happen.

Risk management is the development of an action plan, including measures and strategy which reduces significant risks to acceptable levels. Risk management should be applied to pre- construction planning for the most cost-effective environmental outcomes.

**Self-Check -5****Written Test**

**Directions:** Answer all the questions listed below.

1. Which one of the following major entrepreneurial competences set or body of information stored, which may be recalled at an appropriate time. .( 2 point )  
**A. Knowledge      B. skills      C. traits      D. Attitude**
2. Which one of the following is not correct for successful entrepreneur.( 2 point )  
**A. Takes initiative.**  
**B. Catering**  
**C. Is persistent**  
**D. Takes calculated risks**  
**E. Demonstrates self-confidence**
3. Define Risk assessment for successful entrepreneur.( 1point )

**Note: Satisfactory rating - 3 and 5 points**

**Unsatisfactory - below 3**

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

Score = \_\_\_\_\_  
Rating: \_\_\_\_\_

**Name:** \_\_\_\_\_

**Date:** \_\_\_\_\_



# **Basic Electrical Electronics Equipment Servicing Level I**

## **Learning guide – 59**

Unit of Competence: Develop underfunding of  
Entrepreneurship

Module Title: Developing underfunding of  
Entrepreneurship

LG Code: EEL BEE1 M14 Lo3-LG-59

TTLM Code: EEL BEE1 TTLM 0919V1

### **LO3. Discuss how to organize an enterprise**



## Instruction Sheet

## Learning Guide # 59

This learning guide is developed to provide you the necessary information regarding the following learning outcome coverage:-

- ) Discussing and correlating the importance of business entrepreneurship
- ) Discussing, clarifying and understanding facts about enterprises
- ) Identifying and explaining key success and factor
- ) Identifying and assessing business opportunities
- ) Generating business ideas
- ) Discussing and understanding procedures for suitable market for business
- ) Identifying and discussing major factors
- ) Identifying and explaining basic types of business ownership
- ) Estimating and clarifying amount of money needed to start an enterprise
- ) Identifying advantages and disadvantages source of capital

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 –**

- ) Discussing and correlating the importance of business entrepreneurship
- ) Discussing, clarifying and understanding facts about enterprises
- ) Identifying and explaining key success and factor
- ) Identifying and assessing business opportunities
- ) Generating business ideas
- ) Discussing and understanding procedures for suitable market for business
- ) Identifying and discussing major factors
- ) Identifying and explaining basic types of business ownership
- ) Estimating and clarifying amount of money needed to start an enterprise
- ) Identifying advantages and disadvantages source of capital

### Learning Instructions:

1. Read the specific objectives of this Learning Guide.
2. Follow the instructions described below 3 to 6.
3. Read the information written in the information “Sheet 1, Sheet 2 , and Sheet 3
4. Accomplish the “Self-check 1, Self-check 2, Self-check 3 , Self-check 4 , Self-check 5 , Self-check 6 , Self-check 7 , Self-check 8 , Self-check 9 , and, Self-check 10 **in page -64, 68, 72,77,83,86,89,94,100, and 105** respectively.



## Information Sheet-1

# Discussing and correlating the importance of business entrepreneurship in the society.

### 1.1. Introduction

One of the first things to think about if you're starting a small business is how you want to organize it. Correlating the importance of business entrepreneurship in the society by deciding the following points.

- ✓ What is the source and amount of borrowed money for the business?
- ✓ What skills will the business need that I cannot provide?
- ✓ How much personal control do I want to maintain over business decisions?
- ✓ What form of organization will minimize taxation of the business?
- ✓ How much personal responsibility should I take for business debts and liabilities?
- ✓ What will happen to the business if I can no longer manage it?
- ✓ What organization form will best help me to achieve my short-and long-term business goals?

### 1.1. Role and Importance of Business Entrepreneurship in Society

#### ) Reasons for Interest in Small Business

Small business operators constitute a large political pressure group whose voice and concerns cannot be ignored. Here are large numbers of people involved in small enterprise. Employees and sometimes owners of small enterprises tend to be underprivileged. Small enterprises offer many job opportunities, especially for women. Small enterprises alleviate poverty and contribute to development.

### 1.2.1. Importance of Business Entrepreneurship in Society

#### ) Employment creation

- ✓ Entrepreneurs create employment for themselves and other people. They are employers, and hence assist in solving the unemployment problem.

) **Local resources** :When entrepreneurs utilize local resources, thus value of these resources increases.

#### ) Decentralization and diversification of business

- ✓ Entrepreneurs are able to identify business opportunities, and locate these businesses in suitable areas, including rural areas.

#### ) Promotion of technology

- ✓ By being creative, entrepreneurs are able to contribute to the utilization and development of technology.



- ) **Capital formation:** Entrepreneurship increases capital formation and investment.
- ) **Promotion of an entrepreneurial culture**
  - ✓ By projecting successful images, entrepreneurs become models that can be copied by young people..
- ) **Contributed towards research and development system;** - almost majority of all innovations are due to the entrepreneurs.
- ) **Creates wealth for nation and for individuals as well;** - all individuals who search business opportunities usually create wealth by entering into entrepreneurship. The wealth created by the same play a considerable role in the development of nation..
- ) **Entrepreneurship provides self sufficiency;** - the entrepreneur not only become self sufficient but also provide great standards of living to its employees. It provides opportunity to a number of people working in the organization.

### **1.2.2. Meaning of small and medium enterprises**

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

#### **) Meaning of Small Business**

##### **Elements constituting the meaning of small business:**

- ✓ Independent management
- ✓ Owner supplied capital
- ✓ Mainly local area of operation
- ✓ Relatively small size within an industry

#### **) Definitions of small businesses**

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

- ✓ “Individually owned and operated business”
- ✓ “A business employing not more than fifty people” (this number may differ from one country to another)



**Self-Check -1**

**Written Test**

**Directions:** Answer all the questions listed below.

1. List the Importance of Business Entrepreneurship in Society.(4 points)

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2. Definitions of small businesses . .(1 points)

**Note: Satisfactory rating - 3 and 5 points                      Unsatisfactory - below 3**  
You can ask you teacher for the copy of the correct answers.

Score = \_\_\_\_\_  
Rating: \_\_\_\_\_

Name: \_\_\_\_\_

Date: \_\_\_\_\_



**2.1. understanding of facts about small and medium small enterprise****) Definition of micro, small and medium-sized enterprises**

The new definition thus qualifies small and medium-sized enterprises (SMEs) and the concept of the microenterprise. It strengthens the efficiency of the Community programmes and policies designed for these businesses. The aim is to ensure that enterprises whose economic power exceeds that of an SME do not benefit from the support mechanisms specifically intended for SMEs.

**2.1.1. Micro, small and medium-sized enterprises standards**

"SME" stands for small and medium-sized enterprises – as defined in Ethiopia law: The main factors determining whether a company is an SME are:

- ✓ **Number of employees** and
- ✓ Either **turnover** or **balance sheet total**.

**2.1.2. Micro, small and medium-sized enterprises**

Micro, small and medium-sized enterprises are defined according to their staff headcount and turnover or annual balance-sheet total

- ✓ A medium-sized enterprise is defined as an enterprise which employs more than **30** persons and whose annual turnover exceed **1.5 million birr** or whose annual balance-sheet total does not exceed medium-sized enterprises.
- ✓ A small enterprise is defined as an enterprise for service which employs **6-30** persons and whose annual turnover and/or annual balance sheet total does not exceed **1.5 million birr and not  $\leq$  birr 100,000 million birr**
- ✓ A small enterprise is defined as an enterprise for industry which employs **6-30** persons and whose annual turnover and/or annual balance sheet total does not exceed **500000 .and not  $\leq$  birr 500,000 million birr**
- ✓ A microenterprise is defined as an enterprise for service which employs fewer than  **$\leq$  5 persons** and whose annual turnover and/or annual balance sheet total does not exceed  **$\leq$  50,000 birr?**
- ✓ A microenterprise is defined as an enterprise for industry which employs fewer than  **$\leq$  5 persons** and whose annual turnover and/or annual balance sheet total does not exceed  **$\leq$  100,0**

**2.1.3. Weaknesses and Strengths of Small Enterprises**



## A. Small Enterprise Weaknesses:

- ) **Financial limitations:** Balancing “cash in” and “cash out” is a struggle, especially when trying to expand. Instead of receiving the red carpet treatment by financiers when asking for a loan, the small businessperson is often made to feel like a second-class citizen. Small enterprises can't use credit as a selling tool as readily as companies with large financial reserves.
- ) **Staffing problems:** Small companies cannot pay top salaries and provide the opportunities and status normally associated with a big company job. Small enterprise owners must also concentrate on the day-to-day problems of running the business and generally have little time left to think about objectives.
- ) **Higher direct costs:** A small enterprise cannot buy raw materials, machinery or supplies as cheaply as a large company, or obtain a large producers economies of scale. So per unit production costs are usually higher for a small enterprise, but overhead costs are generally somewhat lower.
- ) **Too many eggs in one basket:** A large diversified company can take a licking in one sector of its business and still remain strong. This is not so for the small business with only a few product lines.
- ) **Lack of credibility:** The public accepts a large company's products because its name is well known and usually respected. A small enterprise must struggle to prove itself each time it offers a new product or enters a new market.

## B. Small Enterprise Strengths:

- ) **Personal touch:** Customers will often pay a premium for personalized attention. In fact, in many industries where product and price differences are minimal, the human factor emerges as a prime competitive advantage.
- ) **Greater motivation:** Key management of a small enterprise normally consists of the owner(s). Consequently, they work harder, longer and with more personal involvement. Profits and losses have more meaning to them than salaries and bonuses have to the employees of a larger company.
- ) **Greater flexibility:** A small enterprise has the prime competitive advantage of flexibility. A big business cannot close a plant without opposition from organized labor, or even raise prices without possible intervention from the government, but a small enterprise can react quickly to competitive changes. A small enterprise also has shorter lines of communication. Its



product lines are narrow, its markets limited and its factories and warehouses close by. It can quickly spot trouble or opportunity and take appropriate action.

- ) **Less bureaucracy:** Grasping the big picture is difficult for executives of large companies. This “Management myopia” leads to redundant actions and bureaucratic inefficiencies.
- ) **Unobtrusive (less conspicuous):** Because it is not quite as noticeable, the small company can try new sales tactics or introduce new products without attracting undue attention or opposition

**Self-Check -2****Written Test**

**Directions:** Answer all the questions listed below.

1. Micro, small and medium-sized enterprises are defined according to their staff headcount and turnover or annual balance-sheet total.(3 points)

A. True      B. False

2. *Write and Explain* Weaknesses and Strengths of Small Enterprises. .(2 points)

\_\_\_\_\_

\_\_\_\_\_

**Note: Satisfactory rating - 3 and 5 points**

**Unsatisfactory - below 3**

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

Score = \_\_\_\_\_

Rating: \_\_\_\_\_

Name: \_\_\_\_\_

Date: \_\_\_\_\_



### **3.1. Identification of Key Success Factor to small and Medium Enterprises (SMEs)**

#### **3.1.1. Key Success Factors in Setting up a Small Business**

##### **) The crucial ingredient in the whole process is the entrepreneur**

- ✓ He/she takes the initiative and also bears the risk in creating and/or organizing an attractive offer of value to potential customers. The entrepreneur's ability to do this successfully depends on 4 factors, namely: Motivation, Ability, Idea and Resources. The acronym – MAIR – may help you remember these factors more easily. These are explained in turn.

##### **) Idea and Market**

The important issue to be determined here is the viability of the idea, project, product or service to be offered. In other words, does the idea, product or service meet a need or want for which there are customers who can afford it and are willing to use/purchase it in sufficient quantities to make the whole project worthwhile. How the proposition to be offered is more desirable or better than what is currently available and how will competitors react?

##### **) Motivation and Determination**

It is widely acknowledged that, to be successful, the individual or group needs to be highly motivated and determined to set up the business to make it succeed. This will be reflected, for example, in how persistent they are in overcoming obstacles that might get in the way, how they go about seeking information and how they act on opportunities. Additional indicators might be their commitment and attitude to work, previous attempts to set up a business and the support of their family or partners.

##### **) Ability**

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

##### **) Resources**

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



Examples here include capital, cash, premises, materials, equipment and labor. The availability of infrastructure (e.g. utilities like electricity, telephone, roads) and support services might also be important.

### ) **Organization and Management**

The business then needs to actually start operating and, once this is done, it would need to be managed. In setting up the business, or before starting to operate, there may be legal or other statutory requirements to be met. There may be a need to consult professionals such as lawyers, accountants and/or staff from small business support agencies for advice. The whole business and the process need to be managed, and how well this is done will all affect performance – in particular, finding and dealing with customers, management of cash and finances, marketing, handling employees, dealing with suppliers, control systems.

In summary, small businesses need to adopt strategy that is Simple, Measurable, Actionable, Realizable, and Total (SMART). When strategy has been analyzed and selected, the task is then to translate it into organizational action. Implementation is often the hardest part.

Well designed and well formulated strategic plan is a key factor for success of small and medium business Enterprises (SMEs). Strategy is extensively implemented in both our personal and professional lives. Strategy is not only important to individuals in daily walks of life, but organizations as well, regardless of size, industry, geographical location or portfolio.

For SMEs, Strategy is a visionary process that best relates to its Business and Operational Strategy through a strategic framework that inscribes Market Assessment, Plan Formulation (idea formulation process), Plan Implementation (practical application of the business idea), and Plan Evaluation (constant assessment of progress made whilst correcting any deviations).

## **3.2. Setting entrepreneurial goals**

### ) **WHAT IS GOAL?**

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

### ) **Goal Setting Process**

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



- ✓ Identify resources!

## ) **GOAL MUST BE:**

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

### **3.2.1. Setting Entrepreneurial Goals**

#### ) **Meaning of Goal**

- ✓ The end result or achievement, in which organizational and individual effort is directed, is a goal.
- ✓ When you engage in true goal setting, you define your objectives in pragmatic or realistic, measurable terms. You also need to identify the resources, time and funds you'll need to invest to attain them.
- ✓ Goals are essential starting points in planning because they provide direction for all other managerial activities.
- ✓ Your goals should be your own. They should be set for things you really want to achieve.
- ✓ Goals should be specific. They should be clear, concrete and written.
- ✓ Goals should be measurable and can be quantified. You need to be able to know when you have reached a goal.
- ✓ Review goals periodically to measure the extent your goals have been achieved

**Self-Check -3****Written Test**

**Directions:** Answer all the questions listed below.

1. *LIST the* Key success factors in setting up small and medium enterprises.(3 point)

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2. Which one of the following is correct about identification for goal setting of entrepreneurial Success to small and Medium Enterprises (SMEs) .(2 point)

- A.Describe long and short-term goals!
- B.Action plan is outlined including activities,
- C.Identify resources!
- D.Performance standards and measurement criteria
- E.All of the above is correct.

**Note: Satisfactory rating - 3 and 5 points                      Unsatisfactory - below 3**

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

Score = \_\_\_\_\_  
Rating: \_\_\_\_\_

Name: \_\_\_\_\_

Date: \_\_\_\_\_





#### **4.1. Ways of identifying business opportunities**

A business opportunity may be defined simply as an attractive idea or proposition that provides the possibility of a return for the investor or the person taking the risk. Such opportunities are represented by customer requirements and lead to the provision of a product or service which creates or adds value for its buyer or end-user.

#### **4.2. What is a Business Opportunity?**

A business opportunity may be defined simply as an attractive investment idea or proposition that provides the possibility of a monetary return for the person taking the risk.

A good idea is not necessarily a good business opportunity.

So, what turns an idea into a business opportunity?

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

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

**) Macro Screening Criteria (1<sup>st</sup> Stage Screening)**

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

**) Micro Screening Criteria**

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



## ) **Marketing Viability**

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

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

- **Technical Viability**

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

- **Organizational and Management Viability**

- ✓ Abilities, competencies, skills, experience, values and motivations of management/key officers as per the Good network with customers
- ✓ Managerial experience
- ✓ Superior technology
- ✓ Distribution system
- ✓ Product requirements of project.

Sketch personnel requirements: what people will be needed now, in a year, in the long term?

What skills and qualifications are required and what financial implication results?

- **Financial Viability**

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



## ) Environmental Viability

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

## ) Ecological Viability

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

## ) How Do I Identify Business Opportunities?

Ideas and opportunities need to be screened and assessed for viability once they have been identified or generated. Identifying and assessing business opportunities involves, in essence, determining risks and rewards/returns reflecting the following factors:

- ✓ **Industry and market:** Is there a market for the idea? Are there any customers people with money who are able and willing to buy the product or service? Can you provide what they need or want? How many are there?
- ✓ **Length of the 'window of opportunity':** Can you create or seize the opportunity whilst it lasts?
- ✓ **Personal goals and competencies of the entrepreneur:** Do you really want to venture into the business? Do you have what it takes? Are you motivated enough?
- ✓ **Management team:** Who else will be involved with you in the business? Do they have the experience, know-how, contacts or other desirable attributes required?
- ✓ **Competition:** Who are your competitors? Do you have something customers want that your competitors do not have? For example, can you produce or market at lower costs?
- ✓ **Capital, technology and other resource requirements:** How much capital, technology or other resources are required? Do you already have them or could you get them?
- ✓ **Environment:** Are the political, economic, geographical, legal, and regulatory Contexts favorable? Will the business do any damage to the physical environment?

The above questions are typical of the type of issues that need to be addressed. Responses to these questions will determine the attractiveness of any business opportunity.

## ) How can market performance be evaluated?



- ✓ After marketing program decisions are made, owners 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.
- A.** Is the business doing all it can to be customer-oriented?
- B.** Do employees make sure customers' needs are satisfied and leave customers with the feeling that they would enjoy coming back?
- C.** Can customers find what they want and at a competitive price?

**Self-Check -4****Written Test**

**Directions: Answer all the questions listed below.**

1. Which one of the following not the criteria for are to be a good business opportunity following. (2 point)

- A. Real demand
- B. Return on investment
- C. Availability of resources and skills
- D. Be competitive
- E. None

2. **What is a Business Opportunity?**

**Note: Satisfactory rating - 3 and 5 points**

**Unsatisfactory - below 3**

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

Score = \_\_\_\_\_

Rating: \_\_\_\_\_

Name: \_\_\_\_\_

Date: \_\_\_\_\_



## **5.1. Techniques and steps of generating business ideas**

### **5.1.1. Generating a Business Idea**

#### **) 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 Interest
  - ✓ 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

## ) **What Is a Business Idea?**

A business idea is the response of a person or persons, or an organization to solving an identified problem or to meet perceived needs in the environment.

Finding a good idea is the first step in transforming the entrepreneur's desire and creativity into a business opportunity.

A good business idea is essential, or even a prerequisite, for a successful business Venture. However, good business ideas do not usually just occur to an entrepreneur. Rather, they are the result of hard work and effort on the part of the entrepreneur in generating, identifying and evaluating opportunities. The process of developing business idea is not a simple process. The most optimal way is to have a systematic approach in generating and selecting business ideas that will be transferred in real business. **Here are some basic but important questions that can lead us through the process of business idea development:**

### ) **Making a Framework**

This is the first step of the process where we must make a framework for the next steps. Everything that will be out of that framework will not be included in the next steps of the process. This step is more about us as future entrepreneurs. The questions that we must answer are:

- ✓ Is entrepreneurial life that I really want to life?
- ✓ Am I psychologically prepared for business startup?
- ✓ What are my goals for the future?
- ✓ How much I want to earn after several years?
- ✓ How will be started my business solo or with a team of people?
- ✓ How much money I have for startup?
- ✓ How much money my partners have for startup?
- ✓ How much I can spend on business startup?
- ✓ How long I can persist before the business start generating money

Brainstorming is the process of generating ideas where it is not looked into the quality of an idea only on the quantity. Brainstorming is a group creativity technique designed to generate a large number of ideas for the solution of a problem. Before starting this step it is better to prepare a business idea book where we can note all business ideas that will generate.

## ) **Selecting the Best Business Idea**



This step is simply selecting the best business idea from the bunch of business ideas generated in previous step – brainstorming. The purpose of this step is to find one or several ideas that will continue in the next steps.

- ✓ Can I exclude some ideas generated in the previous step?
- ✓ Is there ideas that are not compatible with my answers in the first step – framework?
- ✓ What must be checked in ideas that were generated?
- ✓ What is the opinion of my friends about the rest of business ideas?
- ✓ What is the opinion of my previous colleagues about the rest of ideas?
- ✓ What is the opinion of the market experts that I know about the rest of ideas?
- ✓ What is my personal opinion about the rest of ideas?
- ✓ What is the one or several business idea that received biggest amount of votes from previous questions in this step?

### ) **Researching**

The fourth step is making the research about selected business idea or ideas from previous step. Here needs broader audiences that must be included in our analysis. One of the tools that we can use it, here are surveys.

- ✓ Do I have capabilities to implement that idea?
- ✓ What is expected reaction from the market about that idea?
- ✓ What amount of money the market is willing to pay about product or service from the idea?
- ✓ Do markets will have a strong desire for something like my ideas?
- ✓ How much will cost me the product or service?
- ✓ What will be appropriate price for product or service?
- ✓ Is that price that market is willing to pay?
- ✓ Can I make a prototype?
- ✓ If I make a prototype what is the opinion of our potential customers – people that we include in our previous steps and here?
- ✓ What is the feedback from testing a prototype?
- ✓ Can I make adjustments according to feedback from previous question?
- ✓ Can I start after adjustments?

## **5.2. Ten Steps to generating your successful business idea**





## ) **Start thinking! Get your brain to work**

This article has tips and advice that will help you get started with the creative process. The first step towards creative thinking is understating how the mind works and how to stimulate your brain. I will dig deep into this topic

### ) **Buy a note book**

Now that you know how to stimulate your brain and get started with the creative thinking process, you need to keep count on your ideas and make sure that you can document them to study and examine them further.

### ) **Follow your passion**

Starting and building a successful business is no small task, it will be a lot of work, you will face many problems, you will have to deal with situations you never encountered before, so it better be something you love doing. You will find that when things go tough, it is your passion that will get you going and make you overcome the hurdles. If you don't love what you're doing, you will take the first exit when problems arise.

### ) **Keep your eyes open**

New business opportunities get born from new situations every day. Keep an eye on what is happening around you, make it a habit to read the newspaper and identify new opportunities. You may read that people are complaining from poor health services in your area, or the lack of schools in your neighborhood. If you keep your eyes open to new developments and changes around you, you might capitalize on the emerging opportunities that arise.

### ) **Capitalize on your strengths**

Most people are good at something. Look at your experiences and career, what is it that you can do well? Have you been working in project management for 15 years and know the ins and outs of the business, this is often the best place to start.

### ) **Explore new things**

As mentioned earlier, change is one of the biggest stimulators to the brain. Even if you don't want to open your own coffee shop, next time you're in one, look at how things are done and think of new ways to improve it. Often this thinking might lead you to new ways to improve on your business ideas in your chosen field.

### ) **Check your bank account**

Starting and running your business requires money. Depending in your situation, you need to think of businesses that suit your budget. Everyone's finances are limited, so make sure whatever



business idea you come up with is doable. Having that said, there are places where you can get finance for your business, like banks, venture capitals, family, friends and small business associations in your area. Work out in advance the level of finance you are able to raise, and focus on business that will not exceed those limits.

### ) **Know what you want in life**

Aside from your business goals, think about the reasons you want to start the business in the first place. What is it that you are looking for? What are your goals in life? Are you starting a business to be able to spend more time with your family? To make more money? To be respected among your peers?

Whatever your goals are, make sure that your business idea complements these goals and help you achieve them. If your goal is to find more time to spend with your family and do other things, then starting a business that requires you to work 16 hours a day or travel constantly might not be the best idea.

### ) **Choose a business that suits your personality**

Are you morning person or a night creature? Each person has his/her own peak hours of the day. You will find very few successful bakers or newspaper owners that don't like to wake up in the morning. If you are not a morning person, avoid businesses that will need you to work in the early hours of the morning. If you are a night person, then maybe running a night club or a restaurant that stays open till late hours is more suitable for you. Conversely, if you sleep early, running a business that requires you to stay late might not be suitable for you.

**Self-Check -5****Written Test**

**Directions: Answer all the questions listed below.**

**1.** Which one of the following is **not** Sources of Business Idea generating (1 point )

- B.** Being Creative
- C.** Personal Interests
- D.** Changes in Society
- E.** Buy a note book

**2** *Define* a Business Idea? (1 point )

**3** *List* Ten Steps to generating your successful business idea (3 point )

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**Note: Satisfactory rating - 3 and 5 points                      Unsatisfactory - below 3**  
You can ask you teacher for the copy of the correct answers.

Score = \_\_\_\_\_  
Rating: \_\_\_\_\_

Name: \_\_\_\_\_

Date: \_\_\_\_\_



### 6.1. Introduction of Procedures to identify suitable market

The first step for market is to carry out a survey **of the situation of market** to identify suitable markets for the goods he wants to provide. Alternatively, he could study a specific market to identify the goods suitable for customer to that particular market. He should also study the present competition and future prospects.

#### ) When applying the marketing concept, a small business should:

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

### 6.2 What is a market?

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

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

### 2) What should entrepreneurs know about potential customers?

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

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

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

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



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

### **3) Where can customer information be located?**

Customer information can be obtained from trade associations (publications), chambers of commerce, government agencies (including local government), newspapers and magazines, and individual research by conducting a market survey in the community. One of the greatest needs of the owners of small businesses is to understand and develop marketing programs for their products and services. Modern marketing programs are built around the “marketing concept” and performance, which directs the owners to focus their efforts. On identifying, satisfying and following up the customer’s needs, but at a cost that will bring a Profit.

#### **) Marketing is based on the fact that:**

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

#### **) When applying the marketing concept, a small business should:**

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

#### **) What factors affect the consumer market?**

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

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

**Self-Check -6****Written Test**

**Directions:** Answer all the questions listed below.

1. Which one of the following factors **does not** affect the consumer market?(1 point )

- A. Population changes
- B. Changes in life-style and attitudes
- C. Low rate of inflation
- D. Changes in technology

2 Describe what should entrepreneurs know about potential customers? (3point).

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3 What is a market? (1 point )

**Note: Satisfactory rating - 3 and 5 points**

**Unsatisfactory - below 3**

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

Score = \_\_\_\_\_

Rating: \_\_\_\_\_

**Name:** \_\_\_\_\_

**Date:** \_\_\_\_\_



### 7.1. Factors relating to your environment

- ) Does your business involve chemicals or hazardous materials? If so choose a location that is strategically away from the townships. Each country may have specific laws that state that such industries must be located outside the city within a specific radius.
- ) What about the natural resources available? Do you need to import resources from other places which would incur added costs or are they freely or cheaply available locally?
- ) Ensure supply of clean water. If not then you have to set up water filtering plants.
- ) Do a research about the quality of the air around the region and noise rate. If you do not run an industry or your industry demands cleanliness such as in pharmaceutical industry, then this point is a must see.
- ) Make sure you analyze the environmental reports thoroughly.

### 7.2. Business considerations

Most countries offer small business start-up incentives. These may range from cutting on taxes, allocation of area for development and so on. You must have heard about SEZ (Special Economic Zones) in Ethiopian. Know more about SEZ [here](#)

#### 7.2.1. Other factors

- ) How much does it cost you to buy or rent a house nearby?
- ) What necessary facilities like hospitals, fire stations etc are available immediately?
- ) What is the geographical situation of the current location? Is it a zone where earthquakes or other natural calamities like floods etc occur?

#### ) Factors for choosing a perfect business location

##### ✓ Does the area you select have activities relating to your business core?

Would you be selling anything if you open a rock music shop near a temple? No. However if you have a pub or a night club near your sock music store chances are that your sales will go sky-high.

##### ✓ Buy a location for your business or lease them?

Most start-ups prefer to rent spaces for their offices and not having land and building on their own. One such example is retailers or whole sellers buy space in this huge commercial area. Ready-to-use infrastructure and developed plots, enabling lower operational set-up time and cost.



✓ **Virtual office space for start-up business**

This is something like you own a business address anywhere in the world, you have your own private telephones, conference halls, mail forwarding and related.

**7.3. How long do you plan to run in the current site?**

) **Transportation to the site**

A very important aspect while choosing your business is transportation. It is really a no brainer. You need to have good access to the site.

) **Availability of workers**

This is one that is mostly overlooked. You have to make sure that human resources are at your dispose

) **Economic condition of the place you selected**

You must strategically place your business where it SELLS!!! It would be a good choice to place a medical shop near a hospital and so on.

) **Is this a new growth area or target market for future business?**

You must always target the future audience while planning a business start-up. Do you plan to start a business that is just a trend and will soon die off? Then think again.

) **Near your competitors?**

You may find this absurd, but it is true. Sometimes placing your business close to your competitors can be your best free source of traffic, especially if you are near an established competitor.

) **10 Operating costs**

- ✓ What are your country tax structures?
- ✓ What about business taxes?
- ✓ How much should you pay as compensation to your workers?
- ✓ How long does it take to get a permit and what is the process involved?
- ✓ Is sufficient amount of land and cheap fuel available?
- ✓ What about the building modification rates if required and electricity charges?

Do you need extra utilities to work efficiently?



**Self-Check -7****Written Test**

**Directions:** Answer all the questions listed below.

1. *List the Factors* for choosing a perfect business location.(2point)

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2. Describe the Factors relating to your environment of your business. .(3point)

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**Note: Satisfactory rating - 3 and 5 points                      Unsatisfactory - below 3**  
You can ask your trainer for the copy of the correct answers.

Score = \_\_\_\_\_  
Rating: \_\_\_\_\_

**Name:** \_\_\_\_\_

**Date:** \_\_\_\_\_



## 7.2. Types of business ownership

The pros and cons of different business types of ownership, including sole proprietorship, partnering, corporations, and limited liability companies. One of the first decisions that you will have to make as a business owner is how the company should be structured. This decision will have long-term implications, so consult with an accountant and attorney to help you select the form of ownership that is right for you. In making a choice, you will want to take in to account the following:

- ) Your vision regarding the size and nature of your business.
- ) The level of control you wish to have.
- ) The level of structure you are willing to deal with.
- ) The business' vulnerability to lawsuits.
- ) Tax implications of the different ownership structures.
- ) Expected profit (or loss) of the business.
- ) Whether or not you need to reinvest earnings into the business.
- ) Your need for access to cash out of the business for yourself.

### A. Sole Proprietorships

*A sole proprietorship* is the most basic form of business ownership, where there is one sole owner who is responsible for the business the vast majority of small businesses start out as sole proprietorships. These firms are owned by one person, usually the individual who has day-to-day responsibilities for the business. Sole proprietors own all the assets of the business and the profits generated by it. They also assume complete responsibility for any of its liabilities or debts. In the eyes of the law and the public, you are one in the same with the business.

#### ) Advantages of a Sole Proprietorship:

- ✓ Easiest and least expensive form of ownership to organize.
- ✓ Sole proprietors are in complete control, and within the parameters of the law, may make decisions as they see fit.
- ✓ Sole proprietors receive all income generated by the business to keep or reinvest.
- ✓ Profits from the business flow directly to the owner's personal tax return.
- ✓ The business is easy to dissolve, if desired.



### ) **Disadvantages of a Sole Proprietorship:**

Sole proprietors have unlimited liability and are legally responsible for all debts against the business. Their business and personal assets are at risk. May be at a disadvantage in raising funds and are often limited to using funds from personal savings or consumer loans. May have a hard time attracting high-caliber employees or those that are motivated by the opportunity to own a part of the business. Some employee benefits such as owner's medical insurance premiums are not directly deductible from business income (only partially deductible as an adjustment to income).

### **B. Partnerships**

In a Partnership, two or more people share ownership of a single business. Like proprietorships, the law does not distinguish between the business and its owners. The partners should have a legal agreement that sets forth how decisions will be made, profits will be shared, disputes will be resolved, how future partners will be admitted to the partnership, how partners can be bought out, and what steps will be taken to dissolve the partnership when needed. Yes, it's hard to think about a breakup when the business is just getting started, but many partnerships split up at crisis times, and unless there is a defined process, there will be even greater problems. They also must decide up-front how much time and capital each will contribute, etc.

### ) **Advantages of a Partnership:**

Partnerships are relatively easy to establish; however time should be invested in developing the partnership agreement. With more than one owner, the ability to raise funds may be increased. The profits from the business flow directly through to the partners' personal tax returns. Prospective employees may be attracted to the business if given the incentive to become a partner. The business usually will benefit from partners who have complementary skills.

### ) **Disadvantages of a Partnership:**

- ✓ Partners are jointly and individually liable for the actions of the other partners.
- ✓ Profits must be shared with others.
- ✓ Since decisions are shared, disagreements can occur.
- ✓ Some employee benefits are not deductible from business income on tax returns. The partnership may have a limited life; it may end upon the withdrawal or death of a partner..



### C. Share Company (Corporations)

A corporation chartered by the state in which it is headquartered is considered by law to be a unique entity, separate and apart from those who own it. A corporation can be taxed, it can be sued, and it can enter into contractual agreements. The owners of a corporation are its shareholders. The shareholders elect a board of directors to oversee the major and decisions. The corporation has a life of its own and does not dissolve when ownership changes.

#### ) **Advantages of a Corporation:**

Shareholders have limited liability for the corporation's debts or judgments against the corporations. Generally, shareholders can only be held accountable for their investment in stock of the company. (Note however, that officers can be held personally liable for their actions, such as the failure to withhold and pay employment taxes.) Corporations can raise additional funds through the sale of stock. A corporation may deduct the cost of benefits it provides to officers and employees. Can elect S corporation status if certain requirements are met. This election enables company to be taxed similar to a partnership.

#### ) **Disadvantages of a Corporation:**

The process of incorporation requires more time and money than other forms of organization. Corporations are monitored by federal, state and some local agencies, and as a result may have more paperwork to comply with regulations. Incorporating may result in higher overall taxes. Dividends paid to shareholders are not deductible from business income; thus it can be taxed twice.

**D. COOPERATIVE**—It is a group of ten or more people operating a business through a jointly owned and democratically run organization. A corporation is a business that operates as a separate legal entity than its creators. Corporations are taxed at different rates than other business types, and a corporation may have different legal rights and responsibilities, depending on the state where it is incorporated.

#### ) **Advantages**

- ✓ shared risk taking
- ✓ easy to raise capitals
- ✓ combines individual skills
- ✓ joint            self            helps



## ) Disadvantage

- ✓ Hard to find qualified members
- ✓ Members cooperate equals
- ✓ Share authority

**Self-Check -8****Written Test**

**Directions:** Answer all the questions listed below.

1. *list and explain the four types of business ownership.*(3 point)

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2. *Which one of the business ownership type can be a group of ten or more people operating a business through a jointly owned and democratically run organization?* (2point)

- A. COOPERATIVE
- B. Share Company (Corporations)
- C. Partnerships
- D. Sole Proprietorships

**Note: Satisfactory rating - 3 and 5 points**

**Unsatisfactory - below 3**

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

Score = \_\_\_\_\_  
Rating: \_\_\_\_\_

**Name:** \_\_\_\_\_

**Date:** \_\_\_\_\_



## 9.1 Techniques & concept of managing money to start an enterprise

### ) Manage your money

- ✓ Money is a huge part of your life. It can determine what you can do and where you can go. Learning how to manage your money the right way is an important step toward taking control of your life.
- ✓ Understand where your money is coming from, where it's going to, and how to make sure that the way you manage your money falls in line with the values that matter most to you.

## 9.2. Source of capital

### ) Where to Get Money to Start a Business

Where can you get money to start your business? That's one of the biggest challenges a startup business needs to address. These 12 start-up funding ideas can help you get your business going.



What's the biggest obstacle to starting a business? For most people, the answer is money. When you calculate your startup costs and then add in the amount of money you need to cover your personal expenses during the startup phase, getting enough money to start your new business can seem like an impossible dream.

- ) **Start part-time.** If you need a steady source of income to meet your financial obligations (and keep your family covered by health insurance) start the business as a part-time venture. Don't quit the day job until the part-time business has a steady flow of customers and profits.
- ) **Start the business from home.** You can start your business for much less money if you don't have to foot the bill for office space and utilities for an out-of-the-home office. While you may not want to advertise the fact that you work from home, you will have plenty of company. According to



the US Small Business Administration Office of Advocacy, 52 percent of businesses are home based.

- ) **Get advance commitments for work.** Line up one or two sources of business before you take the plunge. Former employers, if you left on good terms, are often a source of start-up work, or sometimes funding. Big companies that can send you their overflow work or small jobs that they don't want to do can also provide the initial stream of work and income.
- ) **Get a part-time job.** Work part time and save up your earnings until you have enough money to start the business. Or, as an alternative, work part- or full-time in your own business and take a part-time job to supplement the income from your new business
- ) **Use a credit card.** Using a credit card - if you have good credit - is the easiest way to get money to start a business. Equipment, suppliers, advertising and postage (for mailings) can all be purchased with a credit card. And if your credit card gives you a line of credit, you can give yourself an instant loan (up to your credit limit). But using a credit card to start your business bears some significant risk, too. If you're not careful you can quickly run up a huge credit card bill - a bill you'll be responsible for paying whether your business is successful or not.
- ) **Apply for a home equity line of credit.** Some banks offer home equity lines of credit that let you borrow up to as much as 75% of the appraised value of your home. Depending on the value of your home and what you still owe in other mortgages that can put a significant amount of money at your disposal for starting your business. The downside: you're putting your home at risk. If the business fails and you can't repay the loan, you could lose your home. If you decide to go this route, be sure to read the Federal Reserve Board's information about home equity lines of credit.
- ) **Apply for business loan instead of a home equity loan.** Information you'll need to give the bank includes the: purpose of the loan, projected opening-day balance sheet (new businesses), lease details, amount of investment in the business by the owner(s), projections of income, expenses and cash flow, signed personal financial statements and your resume. You may also need a formal business plan. (If you're trying to get funding to grow a business you've already started, you'll also need business financial statements for the last three years, and information on receivables, payables, and outstanding debt.) Don't be surprised if the bank turns you down, though. Banks are often leery of lending money to startups. For more information on bank funding, see our articles about getting business loans.





- ) **Ask Your Bank about an SBA-guaranteed loan** if the bank turns you down for a business loan, ask them if they'll consider your loan through the SBA guaranteed loan program. If they agree to do so, they'll forward your loan application and credit information to the nearest SBA district office, for a decision.
- ) **Borrow from family and friends.** Family and friends are a frequent source of funding for small businesses. But remember, you have to live with your family for a long time - and you probably want to stay friends with your friends. So don't borrow from unless you have a business plan and have done enough research to know there is a market for what you want to sell. Be sure your plans provide a way to also pay interest on the money borrowed from family and friends.

### **9.3. Money needed to start an enterprise**

#### **✓ Basic Concepts**

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

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

### **9.4. Sources of Business Financing**

- ✓ There are two common primary sources of business financing:

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

#### **✓ Equity financing**

- ✓ It is the money the owner puts or invests into the business.
- ✓ **The main sources of equity financing are:**
  - ✓ Personal savings



- ✓ Family, relatives and friends
- ✓ Partners
- ✓ Corporation (sell stock to raise equity capital)
- ✓ Financial experts' state that 30% of the money needed to start a small business should come from the owner.
- ✓ Potential/future entrepreneurs must work and save to have enough money to start a business.
- ✓ **Credit or debt financing**
  - ✓ Borrowing needed capital for the business.
  - ✓ Lending institutions must sense that the business owner has a personal commitment and involvement in the business in terms of the time, energy and money the owner is willing to contribute to the business.
  - ✓ The main sources of credit or debt financing are:
    - ✓ Banks,
    - ✓ Finance companies,
    - ✓ Governments agencies (with loan schemes),
    - ✓ Trade credit and
    - ✓ Microfinance institutions

### ) **Estimating the Start-up Capital**

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

### ) **Start-up capital serves two purposes.**

- ✓ Pre-operation payments
- ✓ Initial operation payments

#### **1. Pre-operation payments or investment capital**

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



) People very often do not realize that a number of other payments have to be made before they can really start their business. For example:

- ✓ Cost of installing machines,
- ✓ Training expenses to train workers to use machines
- ✓ Fees for licenses and insurance
- ✓ Costs related to renovation of facilities

## **2. Initial operation payments or working capital**

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

**Self-Check -9****Written Test**

**Directions:** Answer all the questions listed below.

1. Which one of the following purposes of Start-up capital (2point)

- A. Pre-operation payments   B. Initial operation payments   C. a credit card   D. equity line of credit  
E. A & B   F. All

2. Initial operation payments will occur after a new business started to operate. (1point)

- A. False   B. True

3. List the common primary sources of business financing. . (2point)

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**Note: Satisfactory rating - 3 and 5 points**

**Unsatisfactory - below 3**

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

Score = \_\_\_\_\_

Rating: \_\_\_\_\_

**Name:** \_\_\_\_\_

**Date:** \_\_\_\_\_



### 10.1. Introduction financial support

**Funding** is the act of providing financial resources, usually in the form of money, or other values such as effort or time, to finance a need, program, and project, usually by an organization or company. Generally, this word is used when a firm uses its internal reserves to satisfy its necessity for cash, while the term **financing** is used when the firm acquires capital from external sources.

Sources of funding include credit, venture capital, donations, grants, savings, subsidies, and taxes. Funding such as donations, subsidies, and grants that have no direct requirement for return of investment are described as "**soft funding**" or "crowd funding". Funding that facilitates the exchange of equity ownership in a company for capital investment via an online funding portal as per the Jumpstart Our Business Startups Act (alternately, the "JOBS Act of 2012") (U.S.) is known as equity crowd funding.

### 10.2. Different ways a business can obtain money

#### A. Internal Sources

- There are five internal sources of finance:
  - ✓ Owner's investment (start up or additional capital)
  - ✓ Retained profits
  - ✓ Sale of stock
  - ✓ Sale of fixed assets
  - ✓ Debt collection

#### B. Owner's investment

- ✓ This is money which comes from the owner/s own savings
- ✓ It may be in the form of start up capital - used when the business is setting up
- ✓ It may be in the form of additional capital – perhaps used for expansion
- ✓ This is a long-term source of finance

##### ) Advantages

- ✓ Doesn't have to be repaid
- ✓ No interest is payable

##### ) Disadvantages

- ✓ There is a limit to the amount an owner can invest



## 2. Retained Profits

- ✓ This source of finance is only available for a business which has been trading for more than one year
- ✓ It is when the profits made are ploughed back into the business
- ✓ This is a medium or long-term source of finance

### ) Advantages

- ✓ Doesn't have to be repaid
- ✓ No interest is payable

### ) Disadvantages

- ✓ Not available to a new business
- ✓ Business may not make enough profit to plough back

## 3. Sale of Stock

- ✓ This money comes in from selling off unsold stock
- ✓ This is what happens in the January sales
- ✓ It is when the profits made are ploughed back into the business
- ✓ This is a short-term source of finance

### ) Advantages

- ✓ Quick way of raising finance
- ✓ By selling off stock it reduces the costs associated with holding them

### ) Disadvantages

- ✓ Business will have to take a reduced price for the stock

## 4. Sale of Fixed Assets

- ✓ This money comes in from selling off fixed assets, such as:
- ✓ a piece of machinery that is no longer needed
- ✓ Businesses do not always have surplus fixed assets which they can sell off
- ✓ There is also a limit to the number of fixed assets a firm can sell off
- ✓ This is a medium-term source of finance

### ) Advantages

- ✓ Good way to raise finance from an asset that is no longer needed

### ) Disadvantages

- ✓ Some businesses are unlikely to have surplus assets to sell
- ✓ Can be a slow method of raising finance



## 5. Debt Collection

- ✓ A debtor is someone who owes a business money
- ✓ A business can raise finance by collecting the money owed to them (debts) from their debtors
- ✓ Not all businesses have debtors ie those who deal only in cash
- ✓ This is a short-term source of finance

### ) **Advantages**

- ✓ No additional cost in getting this finance, it is part of the businesses' normal operations

### ) **Disadvantages**

- ✓ There is a risk that debts owed can go bad and not be repaid

## 6. External Sources

### ) **There are five External sources of finance:**

- ✓ Bank Loan or Overdraft
- ✓ Additional Partners
- ✓ Share Issue
- ✓ Leasing
- ✓ Hire Purchase
- ✓ Mortgage
- ✓ Trade Credit
- ✓ Government Grants

### 1. Bank Loan

- ✓ This is money borrowed at an agreed rate of interest over a set period of time
- ✓ This is a medium or long-term source of finance

#### **Advantages**

- ✓ Set repayments are spread over a period of time which is good for budgeting

#### **Disadvantages**

- ✓ Can be expensive due to interest payments
- ✓ Bank may require security on the loan

### 2. Additional Partners

- This is sources of finance suitable for a partnership business
- The new partner/s can contribute extra capital

#### **Advantages**

- Doesn't have to be repaid



- No interest is payable

### **Disadvantages**

- Diluting control of the partnership
- Profits will be split more ways

### **3. Share Issue**

- This is sources of finance suitable for a limited company
- Involves issuing more shares
- This is a long-term source of finance

### **Advantages**

- Doesn't have to be repaid
- No interest is payable

### **Disadvantages**

- Profits will be paid out as dividends to more shareholders
- Ownership of the company could change hands

### **4. Leasing**

- This method allows a business to obtain assets without the need to pay a large lump sum up front
- It is arranged through a finance company
- Leasing is like renting an asset
- It involves making set repayments
- This is a medium-term source of finance

### **Advantages**

- Businesses can have the use of up to date equipment immediately
- Payments are spread over a period of time which is good for budgeting

### **Disadvantages**

- Can be expensive
- The asset belongs to the finance company

### **5. Hire Purchase**

This method allows a business to obtain assets without the need to pay a large lump sum up front Involves paying an initial deposit and regular payments for a set period of time

The main difference between hire purchase and leasing is that with hire purchase after all repayments have been made the business owns the asset This is a medium-term source of finance



**Self-Check -10****Written Test**

**Directions:** Answer all the questions listed below.

1. Which one of the following is not the internal sources of finance for funding capital.(1 point )

- A. Trade Credit
- B. Owner's investment
- C. Bank Loan or Overdraft
- D. Government Grants

2 Which one of the following **is not** the external sources of finance for funding capital.(1 point )

- A. Owner's investment
- B. Sale of stock
- C. Retained profits
- D. Bank Loan or Overdraft

4 List Different ways to obtain money for source of capital to start any business. (3point)

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**Note: Satisfactory rating - 3 and 5 points**

**Unsatisfactory - below 3**

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

Score = \_\_\_\_\_

Rating: \_\_\_\_\_

Name: \_\_\_\_\_

Date: \_\_\_\_\_



# Basic Electrical Electronics Equipment

## Servicing Level I

# Learning guide – 60

Unit of Competence: Develop underfunding of  
Entrepreneurship

Module Title: Developing underfunding of  
Entrepreneurship

LG Code: EEL BEE1 M14 Lo4-LG60

TTLM Code: EEL BEE1 TTLM 0919V1

## **LO4. Discuss how to operate an enterprise**



This learning guide is developed to provide you the necessary information **regarding the following learning outcome coverage:–**

- ) Identifying and understanding disadvantages and advantages of three alternative
- ) Discussing and explaining process of hiring and managing people
- ) Discussing and understanding the importance and techniques of managing time
- ) Discussing and explaining the techniques and procedures of managing sales
- ) Identifying and discussing factors to consider in selecting suppliers
- ) Developing awareness of how new technologies can affect business
- ) Identifying and explaining characteristics of appropriate technology
- ) Discussing and understanding different types of cost
- ) Discussing and understanding factors and procedures in knowing the cost
- ) Explaining and understanding Importance of financial record keeping
- ) Discussing the application of self-management and negotiation skill
- ) Preparing simple financial statement
- ) Performing risk assessment and management

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 –**

- ) Identify and understand disadvantages and advantages of three alternative
- ) Discuss and explain process of hiring and managing people
- ) Discuss and understand the importance and techniques of managing time
- ) Discussing and explaining the techniques and procedures of managing sales
- ) Identify and discuss factors to consider in selecting suppliers
- ) Develop awareness of how new technologies can affect business
- ) Identify and explain characteristics of appropriate technology
- ) Discuss and understand different types of cost
- ) Discuss and understand factors and procedures in knowing the cost
- ) Explain and understand Importance of financial record keeping
- ) Discuss the application of self-management and negotiation skill
- ) Prepare simple financial statement



) Perform risk assessment and management

### Learning Instructions:

1. Read the specific objectives of this Learning Guide.
2. Follow the instructions described below 3 to 6.
3. Read the information written in the information “Sheet 1, Sheet 2 , and Sheet 3
4. Accomplish the “Self-check 1, Self-check 2, Self-check 3 , Self-check 4 , Self-check 5 , Self-check 6 , Self-check 7 , Self-check 8 , Self-check 9 , Self-check 10 and, Self-check 11 **in page -113, 117, 121,127,132,136,138,142,146, 153,and 161** respectively.
5. If you earned a satisfactory evaluation from the “Self-check” proceed to “Operation Sheet 1, **in page ----.**
6. Do the “LAP test” **in page – ---**(if you are ready)



<b>Information Sheet-1</b>	Identifying and understanding disadvantages and advantages of three alternative become an entrepreneur
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### 1.1. Understanding of alternatives meanness to become an entrepreneur

Business Ideas for the Entrepreneur; Many individuals nowadays prefer to have a home-based job rather than working eight hours each day in the office. Some people are also into franchising; this may sound good but if you want to become a successful entrepreneur, you don't have to focus entirely on franchising. You should consider other business ideas that you can venture into.

- ) ***buying an existing business***
- ) ***starting a new business***
- ) ***operating a franchising business***

### 1.2. Identification of advantages and disadvantages of three alternative means of becoming an entrepreneur

✓ Each means of becoming an entrepreneur has its Own advantages and disadvantages

#### **A. Advantages of starting new business**

- ) Potentially lower expenses and start-up costs
- ) Greater personal freedom
- ) Ability to enter a new market or introduce a new product

#### **B. Disadvantages of staring new business**

- High risk in establishing a new business
- Development of Customers and customer relations may have required strong effort.
- Competition from established businesses may be strong

#### **C. Advantages of Buying an Existing Business**

The main advantages of buying an existing business are:-

- ) Less risk
- ) Significant personal freedom
- ) Cash flow already being generated
- ) Relationships have been established with suppliers and bank
- ) Location may be excellent





2. **Write a business plan.** Include details and descriptions, and plan everything out realistically. Take your time and evaluate your product at each section. The sections of a good business plan include:

- J Product description: develop your product. What will it look like? What materials will you need? Make your product eye-catching.
- J Market Analysis: Who is your market? Where do they shop? Where are they located?
- J Competition: Who is your competition? What are their strengths? How will you beat them?
- J Marketing: How will you market your product? What kind of image do you want to display? Where will you advertise? What is your tagline? What is your packaging like?
- J Sales: Where will you sell? How will you get your customers to buy? When will you sell? What is your estimated sales forecast?
- J Manufacturing: How do you make your product? Explain this in detailed steps. What materials do you need to make your product? When and where will you manufacture? What is your COGS (cost of goods sold)?
- J Finance: how much money do you need to start your business? What is your gross profit?

Or, don't write a business plan. A business plan is a work of fiction, anyway. If you don't have much experience in business, or the market is new and unknown, a business plan might be a waste of time, or, worse, a path to self-delusion. Plan just enough to make your first sale. The main thing is to make at least one customer happy, and complete the entire cycle of "make product, sell product" as quickly as possible. Then you will have a business, and then you might be in a position to understand some problems of the sort that extensive planning can help solve.

3. **Pitch your idea to any potential investor to get money to start your company.**

If you have a good idea, they will love to invest their money in your company. Make a Power Point presentation explaining why your product is the best, including each part of your business plan in the presentation. Tell them how much your estimated gross profit is and how much percentage of that they will earn in interest. Many VCs are not set up to make you successful.

4. **Sell. Sell and distribute your product.** If you're getting revenue, then you're in business. You're testing your theories about the market, you're finding out what really works and what doesn't, and you're getting fuel for more ideas and improvements. If you're not getting revenue, then it's all in your head

5. **Hang out with entrepreneurs.** By meeting entrepreneurs socially, you gain contacts and hear about opportunities. More importantly, you learn how entrepreneurs think. You pick up their



attitudes, their nose for opportunity, their willingness to explore every idea and its opposite (they know that often both work), their contrarian nature, the great diversity in their styles.

#### **1.4. How to become an entrepreneur with no money**

Becoming an entrepreneur is hard; becoming an entrepreneur using no money is extremely difficult.

**There are three questions to answer:**

1. How much money is necessary – or for this case, what are the cheapest options possible for an entrepreneur, since again, there is no such thing that is completely free.
2. How much/little money can I spare?
3. Can I get all or some of the money from elsewhere?

#### **) Cheap Alternatives to Become an Entrepreneur**

##### **✓ How much money can you spare?**

Becoming an entrepreneur is never completely free. However, costs can be kept to a minimum if you have access to the skills you need to set up your business or website, carry out marketing (whether it is brochures that need designing or phone calls that need to be persuasive), and produce or acquire a product or service. Nevertheless, always expect more costs than anticipated, whether they come from printing, subscriptions to tools that help you do your job, and so on.

##### **✓ Can I acquire the money?**

Now, the starting question was how to become an entrepreneur with no money. Well, the easiest answer is: get someone else to pay. Of course, in practice that is much harder, but if you have some experience, a great idea, and professional & persuasive presentation you may well be able to acquire the funding you need. This can be obtained from banks, venture capital organizations, or even just people you know.

Remember, to seem professional you need to have analyzed your market and industry, determined you need to do to succeed, calculated an estimated budget, and made an overall strategy.





**Directions:** Answer all the questions listed below.

1. List three alternatives means to become an entrepreneur ( 3 points)  
A. \_\_\_\_\_ B. \_\_\_\_\_ C. \_\_\_\_\_
2. Which one of the following is **not** the advantages of starting new business? (2 point)
  - A. Potentially lower expenses and start-up costs
  - B. Greater personal freedom
  - C. Ability to enter a new market or introduce a new product
  - D. Good market introduction of the product or service
3. Which one of the following is the advantages of Becoming a Franchisee (1 point)
  - A. Lower risk for the start-up
  - B. Start-up investment cost well known
  - C. Proven marketing concept
  - D. Good market introduction of the product or service
  - E. All.

**Note: Satisfactory rating - 3 and 5 points**

**Unsatisfactory - below 3**

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

Score = \_\_\_\_\_

Rating: \_\_\_\_\_

**Name:** \_\_\_\_\_

**Date:** \_\_\_\_\_



## 2.1. Process of hiring and managing people.

### 2.1.1 What are HRM and its function?

Human resource management (HRM or simply HR) is the management of an organization's workforce, or human resources. It is responsible for the attraction, selection, training, assessment, and rewarding of employees, while also overseeing organizational leadership and culture, and ensuring compliance with employment and labor laws.

#### A. Human Resources Specialists

Human resources specialists recruit, screen, interview, and place workers. They also may handle human resources work in a variety of other areas, such as employee relations, payroll and benefits, and training. The Human Resource Management (HRM) function includes a variety of activities, and key among them is responsibility for human resources -- for deciding what staffing needs you have and whether to use independent contractors or hire employees to fill these needs, recruiting and training the best employees, ensuring they are high performers, dealing with performance issues, and ensuring your personnel and management practices conform to various regulations.

Some people distinguish a difference between HRM and Human Resource Development (HRD), a profession. Those people might include HRM in HRD, explaining that HRD includes the broader range of activities to develop personnel inside of organizations, e.g., career development, training, organization development, etc.

### 2.2.2 Techniques & concept of hiring and managing people.

Hiring a new employee is as important to the entrepreneur as it is to the person hired.

The way entrepreneurs advertise a position, handle applications, conduct interviews, and select and introduce a new worker to a job are all elements in the effort to cut down on employee turnover.

#### J Sources of Potential Employees

The main sources of potential employees are:-

- ✓ Within the business
- ✓ Want ads
- ✓ Employment agencies



- ✓ Educational institutions

- ✓ Former employees
- ✓ Current employees

### ) **Selection Procedures of new employees**

**Step 1.**Receiving Application form from the candidate

**Step 2.**prepare Interview guide and make interview the candidate

**Step3.** Checking of references

**Step4.** Testing applicant's skills

### ) **Orientation Process**

- ✓ New employee's New employee should get orientation before they start their jobs.
- ✓ On their first day should be shown around the business.

### ) **The new employee should be**

- ✓ introduced to the rest of the employees,
- ✓ Given an overall view of the entire operation,
- ✓ Shown exactly how their jobs fit into the total operation of the business

### ) **Basic Rules of Orientation**

Rules should be followed in order to give orientation for new employees are;-

- ✓ Prepare the employee
- ✓ Present the work
- ✓ Try the employee out under supervision
- ✓ Follow-up

### ) **Factors in Preparing For the Orientation of A New Employee**

The main factors to be considered for the orientation of a new employee are:-

- ✓ Know the job
- ✓ Have a current employee serve as a mentor
- ✓ Prepare a simple job breakdown
- ✓ Set a training timetable
- ✓ Arrange the work area
- ✓ Evaluate new employee's work on a daily basis

### ) **Generally To get a good helper, the boss or the owner should be someone who :-**

- ✓ understands people



- ✓ doesn't closely follow the workers around
- ✓ gives the worker some responsibility
- ✓ sits down and talks things over with workers now and then
- ✓ is a good listener
- ✓ is fair with the worker when a good job has been done
- ✓ Personal Traits for Managing Employees

The following below points are main characteristics that a manager should be and should not be during managing the workers or employees

**) When managing employees, entrepreneurs should :-**

- ✓ be consistent
- ✓ be fair and honest
- ✓ build enthusiasm
- ✓ encourage questions
- ✓ encourage employees to make their own decisions
- ✓ instill confidence in them
- ✓ keep an open door
- ✓ listen actively
- ✓ recognize individual differences
- ✓ set a personal example
- ✓ show consideration for the feelings of others

**) When managing employees, entrepreneurs should not :-**

- ✓ be argumentative
- ✓ be autocratic
- ✓ be overly demanding
- ✓ be unreasonable
- ✓ conceal the truth
- ✓ discourage initiative
- ✓ discourage idea

**Self-Check -2****Written Test**

**Directions:** Answer all the questions listed below.

1. Write the steps of Selection Procedures of new employees (2 points)

Step-1\_\_\_\_\_ step-2\_\_\_\_\_ step-3\_\_\_\_\_ step-4\_\_\_\_\_

2. *List* the main factors to be considered for the orientation of a new employee (3 points)

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**Note: Satisfactory rating - 3 and 5 points**

**Unsatisfactory - below 3**

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

Score = \_\_\_\_\_

Rating: \_\_\_\_\_

**Name:** \_\_\_\_\_

**Date:** \_\_\_\_\_



### 3.1. Techniques and importance of time management

#### ) Time management

- ✓ Is the act or process of planning and exercising conscious control over the amount of time spent on specific activities, especially to increase effectiveness, efficiency or productivity?
- ✓ Time management may be aided by a range of skills, tools, and techniques used to manage time when accomplishing specific tasks, projects and goals complying with a due date.
- ✓ Time is something that cannot be saved and evenly distributed resource for everyone.
- ✓ entrepreneurs must be able to manage their time if they are to be successful
- ✓ Entrepreneurs are busy people, but they have the skill of managing their time and resources to accomplish their business goals.

#### ) The specific ways to make better use of time include:

- ✓ setting goals
- ✓ planning,
- ✓ allocating time for each important activity
- ✓ analysis of time spent,
- ✓ monitoring,
- ✓ organizing,
- ✓ scheduling,
- ✓ prioritizing.
- ✓ Initially,



### 3.3. The Importance of Time Management

) Good time management will allow you to:

- ✓ Ensure you are using your time effectively and not concentrating on busy work
- ✓ Gain control over your time
- ✓ Ensure you are moving toward your goals and use time productively
- Feel a sense of accomplishment
- ✓ . Have more time to pursue your other interests

### 3.4. Time Management Tips and Techniques for Entrepreneurs

#### 3.4.1. Importance of Time Management

Time management is a set of tools, techniques and principles which help you make the most of your time and manage it effectively. These set of skills are important to your career and personal success.

Here are top reasons why time management is important in your life and why you should develop these important skills.

) Time is Scarce

- ✓ Once you spend time, you can't take it back. Time, once spent, cannot be retrieved. This is the importance of time management; it allows you to manage your time wisely.

) Time Management is Essential to Success

- ✓ Another importance of time management is that it can help you reach the top of your field. According to business expert
- ✓ Excellent time management is the common denominator of success..

) You Can Work Less and Accomplish More

- ✓ If you manage your time effectively, you work smarter, not harder.
- ✓ Time management skills like prioritizing and handling distractions allow you to boost your productivity levels sky high..

) You Become Highly Effective

- ✓ Experiencing a lack of time is the result of trying to do everything on your to-do list.
- ✓ With proper skills for managing time, you eliminate the non-essential tasks and focus on high-return activities.



- ✓ This leads to better use of your time and can increase your sense of fulfillment in life.

) **It Helps You Find More Time for Other Important Areas in Life**

- ✓ These skills help you manage all your activities in an organized and efficient manner. It will help you find MORE time in the future to do the things you really want to do.

) **It Maximizes Your Efforts and Returns**

- ✓ You will start achieving greater results in your life and career because you tend to spend more time on high-return activities, rather than trivial, low-value tasks.

) **Achieving Your Personal Goals Becomes Easier**

### 3.4.2. Time Management Techniques

) **To manage time we have to use the following techniques;-**

- ✓ Identify specific goals with deadlines
- ✓ Be motivated
- ✓ Use telephone/cell phone
- ✓ Take notes
- ✓ Do only essential activities
- ✓ Ask questions
- ✓ Be action-oriented
- ✓ Be reflective
- ✓ Plan for each day's work
- ✓ Learn from experience
- ✓ Question your use of time

) **On the other hand entrepreneurs' waste their time through different reasons.**

**Basically the way entrepreneurs can waste time include:-**

- ✓ talking with people about personal matters unconnected with work;
- ✓ unnecessary or extra-long group meetings;
- ✓ allowing too many interruptions;
- ✓ disorganization;
- ✓ little or no delegating;
- ✓ being indecisive; and being late or absent



**Self-Check -1****Written Test**

**Directions:** Answer all the questions listed below.

1. *Which one of the following* correct about specific ways to make better use of time (2 point)
  - A. setting goals
  - B. planning,
  - C. allocating time for each important activity
  - D. All
2. *Which one of the following* techniques is **not** use to manage time for entrepreneurs? .(2 point)
  - A. Identify specific goals with deadlines
  - B. Be motivated
  - C. analysis of time spent,
  - D. Do only essential activities
3. List top reasons why time management is important in your life. (2 point).

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**Note: Satisfactory rating - 3 and 5 points                      Unsatisfactory - below 3**

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

Score = \_\_\_\_\_  
Rating: \_\_\_\_\_

**Name:** \_\_\_\_\_

**Date:** \_\_\_\_\_



#### 4.1. Techniques and procedures of sales management

- ) Sales refer to the amount of products or services to be sold at a time to the customer.
- ) Sales managers use a variety of management techniques to maximize the performance they get from their sales force.
- ) Sales people are professionals dedicated to serving their customers and generating profit for the company.
- ) In order to properly motivate a sales force and make it as effective as possible, a manager needs to learn good management techniques that are used to optimize sales personnel performance.
- ) **Characteristics of Successful Salesperson** Results Oriented, Highly Motivated, Self-Confident, Professional Appearance, Honest, Dependable, Knowledge of Products, Good Listener Enthusiastic, Pleasing Personality, Communicator, Sociable, Courteous



## ) Sales management techniques.



Good sales management is one of the simplest ways to increase your revenue and profitability.

) **Sales management** is about leading the **people and process** your company uses to **sell prospects and service customers**. Responsibilities include:

- ✓ Building the right sales strategy
- ✓ Hiring the right team
- ✓ Creating the right compensation plans, territories and quotas
- ✓ Setting the right projections
- ✓ Motivating your team
- ✓ Tracking revenue against goals
- ✓ Resolving conflicts
- ✓ Training and coaching sales reps
- ✓ Managing processes
- ✓ Getting the sale!

### 4.1.1. Sales Management Key Concepts & Steps

#### ) **Before you begin**

It's always a good time to increase your focus on sales management. Your sales process and CRM are important tools that can help you manage your team, forecast results and keep your team on course.

#### ) **Create the right compensation plan and tie it to your revenue goals**

Great salespeople want to make money. Tie the plan to your revenue goals and make sure that you're compensating your reps for the right things. For example, if



your reps don't earn commission for managing "house" accounts, they'll spend their time going after new business and you could lose valuable existing customers.

#### ) **Set realistic quotas**

Be realistic about what a salesperson can accomplish in a set timeframe. Good salespeople can be demotivated by unrealistic quotas, which can lead to turnover.

#### ) **Hire the right people**

To build a great team, start with a strong recruiting effort. Create a detailed job so you know exactly what you need in your candidates. Cast a wide net, use a thorough interview process, and go after the candidates you really want.

#### ) **Coach and provide feedback**

A good manager actively works with the sales team. Train your reps thoroughly and coach them to improve their skills. Go on calls, establish performance measurements, and provide feedback. If a rep has trouble in a particular area, create an action plan and measure improvement.

#### ) **Generate good reports**

You'll need good sales reports to measure team and individual progress. Yet you don't want your sales reps to spend valuable sales time creating manual lists and reports. Instead, develop automated reporting processes – for example, create reports in your CRM system. With good reports, you can see problems much earlier and take action more quickly.

#### ) **Motivate!**

Good sales reps want to get better – encourage them to read, attend seminars, network, and keep refining their skills.

#### ) **After Sales Management**

Keep working with your team, improving their skills, and adjusting as needed. Hire the right people, manage them well, and enjoy their success! For hands-on guidance on managing your sales team,

### **4.1.2. Sales & Marketing Procedures to Improve Sales Pipeline Management**

Sales & Marketing is the foundation of any business. The Sales & Marketing Procedures for Sales Pipeline Management can help you take control of your Sales & Marketing processes and improve key facets like lead generation and sales closing. Thoroughly researched and reviewed by experts, these pre-written policies and procedures are based on the continually improving process philosophy, and they incorporate best practices and proven techniques that provide results. Creating clear



policies and procedures can help align your sales and marketing efforts, which dramatically improves your sales pipeline management.

They also assist in determining which efforts and practices produce tangible results; leading to improved cost per lead and cost per sale performance. Designed for busy professionals like Sales Managers, Marketing Managers, Sales & Marketing VPs, and Business Owners, the Sales & Marketing Procedures for Sales Pipeline Management can save you hundreds of hours in researching and writing the procedures you need to standardize efforts and practices in areas such as developing strategies and tactics, administration, lead management and lead qualification, customer life cycle management, training, and product launch. There is no need to start from scratch. It has already been done for you.

#### 4.1.3. Sales Management Process

This article will give you a bird's-eye view of a sales management process and offer an insight into what are its most important features.



Every company exists to sell some kind of product or service to make profits. That is how our system of **revolutionary democracy works**. Sales management process is the most important of all managerial processes that sustain a business.

#### ) What is Sales Management Process?

This process includes all the aspects, resources and procedures involved in selling. It begins where the manufacturing process ends.

#### ) Steps in the Process

Every managerial process is a chain of tasks dependent on human resources for its completion. The success of the whole process in the form of increased sales revenue and profits depends on the efficient execution of tasks at every level.



) Various steps involved in this process, irrespective of the product or service being sold.

### **Step 1: Sales Training**

This step is reached after one is through with the initial field testing of the product, where it has been sold in limited amount in select localities, to test its response. Necessary improvements have been made according to field test feedback and now the product is ready to be sold along with a full-fledged marketing campaign ready to boost sales.

### **Step 2: Sales Plan Execution**

- ✓ This is the execution part of various sales management strategies which are used. It involves various modes of selling which are coupled with marketing campaigns for the product sale.
- ✓ It all depends upon the salesmanship talents of the people who actually interact with end customers.

### **Step 3: Feedback and Analysis**

- ✓ This step involves review and feedback of the sales performance. Sales force management has a huge impact on the sales performance.
- ✓ The sales targets if achieved are applauded while sales targets which fall short are examined.
- ✓ The reasons for low sales are examined right from shortcomings in the product or incompetence on the part of sales representatives.
- ✓ The feedback is used to make changes in management techniques.
- ✓ The most important ingredient which makes a process stand out is experienced sales managers who have an excellent understanding of ground realities and who know what the customers really want.

**Self-Check -4****Written Test**

**Directions:** Answer all the questions listed below.

1. List Characteristics of Successful Sales person (3 point)
2. Sales & Marketing is the foundation of any business.  
A True B. False
3. List is Sales Management Process steps?

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**Note: Satisfactory rating - 3 and 5 points                      Unsatisfactory - below 3**

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

Score = \_\_\_\_\_  
Rating: \_\_\_\_\_

**Name:** \_\_\_\_\_

**Date:** \_\_\_\_\_



### 5.1. Factors and steps for 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.
- ) 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.

#### ) **Steps for doing business with suppliers**

##### **Step-1 thinking strategically when selecting suppliers**

- ✓ Effective purchasing focuses on what your business needs and what you want to achieve. The right products or services and a good price are not the only factors to consider..

**Step-2 Determine your business needs.** By conducting market surveys you will know who your customers are and what products they want. These customer needs will determine:

- ) Materials and equipment your business will need to produce goods for sale to customers.
- ) Finished goods to buy from suppliers for resale to customers.
- ) Amount of each product to buy as inventory.
- ) price to pay for quantities of goods purchased from suppliers.

**Step-3 Identifying potential suppliers.** Determine which suppliers sell the goods, materials or equipment you need by:

Asking people who work with you, your business friends and others. Try to find out where your competitors buy.

Contacting organizations that support small businesses, for example, the local chamber of commerce may be able to identify honest and reliable suppliers.

Reviewing newspapers, magazines, trade journals and businesses in the telephone directory for names and addresses of potential suppliers.

Determining what goods, materials or equipment each supplier has to sell and the prices, discounts, credit and delivery service they provide.





**Step- 4 determining with the help of other entrepreneurs the reliability of each supplier.**

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 -5 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 6: 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 7: 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 8: 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 9: 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 10: Make the payment to the supplier by cash or check.** Make sure to get a receipt so there is proof of payment.

**There are eight common supplier selection criteria, in no formal order:**

- / Cost.
- / Quality & Safety.
- / Delivery.
- / Service.
- / Social Responsibility
- / Convenience/Simplicity
- / .Risk.
- / Agility

**Self-Check -5****Written Test**

**Directions:** Answer all the questions listed below.

1. *List ten* Steps for doing business with suppliers (3 point )

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2. *Write the* eight common supplier selection criteria, in no formal order.(2 point).

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**Note: Satisfactory rating - 3 and 5 points**

**Unsatisfactory - below 3**

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

Score = \_\_\_\_\_  
Rating: \_\_\_\_\_

**Name:** \_\_\_\_\_

**Date:** \_\_\_\_\_



## **6.1. Understanding of the characteristics and impact of new technology development plan on small and medium business**

### **6.1.1. Characteristics of Technology**

- Ñ 'Technology is defined as purposeful intervention-by-design. It is a human activity, known as Technological Practice that results in Technological Outcomes that have impact in the world.
- Ñ Technological outcomes can enhance the capability of people and expand human possibilities.
- Ñ Technological outcomes change the made world, and may result in both positive and negative impacts on the social and natural world.
- Ñ . Contemporary Technological Practices increasingly rely on collaboration between people within the technology community and with people across other disciplines

### **6.1.2. Impact of new technology**

#### **) Impact of new Technology in Small Business**

- ✓ The use of technology is important because it increases labor productivity, and this in turn increases local competitiveness of both consumer and capital goods locally produced.
- ✓ The use of appropriate technology favors locally produced tools and equipment as well as local resources; this facilitates forward and backward linkages among local businesses.
- ✓ Introducing new technology, such as a computer or cell phone, into a business helps to improve productivity and product innovation.
- ✓ In small businesses, simple technological innovations help to improve product quality and product design, as well as reducing production costs.
- ✓ Entrepreneurs should be made aware of new technologies by attending trade exhibitions, contacting small business development agencies, and visiting other areas of their own country as well as neighboring countries to gain ideas regarding technologies which would be appropriate to their local conditions.

## **6.2. The Impact of Technological Change on Business Activity**



Technology has revolutionized the way companies conduct business by enabling small businesses to level the playing field with larger organizations. Small businesses use an array of tech – everything from servers to mobile devices – to develop competitive advantages in the economic marketplace. Small business owners should consider implementing technology in their planning process for streamlined integration and to make room for future expansion. This allows owners to create operations using the most effective technology available

### **) *Impact on Operating Costs***

Small business owners can use technology to reduce business costs. Basic enterprise software enables a firm to automate back office functions, such as record keeping, accounting and payroll. Mobile tech allows home offices and field reps to interact in real time. For example, field reps can use mobile apps to record their daily expenses as they incur them and have them sync automatically with accounting software back at the office.

### **) *Securing Sensitive Information***

Business owners can also use technology to create secure environments for maintaining sensitive business or consumer information. Many types of business technology or software programs are user-friendly and allow business owners with only minor backgrounds in information technology to make the most of their tools and features

### **) *Share and Collaborate***

Small businesses work closely with their clients to provide them products and services that add value to their lifestyles. Going from an idea to a finished product or service requires small business owners and their employees to collaborate with each other and external vendors. E-mail and instant messenger tools paved the way for online sharing and collaboration. With the ability to instantly connect, share information and get feedback, e-mail and instant messenger are beneficial technological advantages for small businesses. Web-based project management programs such as 5pm, Basecamp and Zoho Projects offer a Web-based approach to keeping track of projects, delegating tasks, updating team members and clients, tracking time, and sharing documents in real-time. For small businesses, this means up-to-date information available in a central hub, regardless of a person's location.

### **) *Flexible Work Environments***

Technology gives small business owners and their employees the option to work in the office, from home, on the road and even from across the country. Affording small



business owners the opportunity to hire talent from all over the world, technology can help businesses gain a competitive edge in the global environment.

### ) ***Instant Connection with Customers***

Small business owners no longer have to mail surveys to customers and wait for weeks for replies, nor do they have to call customers for feedback. Technology gives small businesses the ability to connect with their customers via e-mail, through blogs, social networks and forums. Small business owners can take advantage of this instant connection by getting feedback from customers and applying it to their businesses immediately, if they see fit.

### ) ***Online Stores***

Technology allows crafters, clothing and accessories designers and painters an option to set up online stores, rather than investing in costly storefronts. With consumers migrating to the Internet to find everything from gifts to ordering groceries, the popularity of online shopping increases with the variety of products and services. Businesses with storefronts can create online stores to expand their visibility and reach target markets beyond their neighborhoods and surrounding communities.

### ***Employee Training***

As small businesses implement new technologies into their processes, they are tasked with providing training to new and veteran employees. While new employees are likely to easily adapt to the technologies, veteran employees may resist the new technologies or experience a learning curve, which may temporarily reduce productivity.

**Self-Check -6****Written Test**

**Directions:** Answer all the questions listed below.

1. List the impact of Technological Change on Business Activity( 2 point)

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2. Write the Characteristics of Technology.

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**Note: Satisfactory rating - 3 and 5 points**

**Unsatisfactory - below 3**

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

Score = \_\_\_\_\_  
Rating: \_\_\_\_\_

**Name:** \_\_\_\_\_

**Date:** \_\_\_\_\_





### 7.1. Characteristics & use of appropriate technology 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:**

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

#### 2. **EFFECTIVENESS:**

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

#### 3. **AVAILABILITY:**

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

#### 4. **FLEXIBILITY:**

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

#### 5. **DURABLE:**

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

#### 6. **EFFICIENT:**

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

#### 7. **COST EFFECTIVE:**

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

**Self-Check -1****Written Test**

**Directions:** Answer all the questions listed below.

1. list seven characteristics of appropriate technology in small and medium business (3 point)

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2. Technology should be efficient in its utilization of local resources.(2 point)

A. *False*      B. *True*

**Note: Satisfactory rating - 3 and 5 points**

**Unsatisfactory - below 3**

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

Score = \_\_\_\_\_

Rating: \_\_\_\_\_

**Name:** \_\_\_\_\_

**Date:** \_\_\_\_\_



### 8.1. Understanding of cost management

**Cost management** is the process of **planning and controlling the budget** of a business. Cost management is a form of management accounting that allows a business to predict impending expenditures to help reduce the chance of going over budget.

Many businesses employ cost management plans for specific projects, as well as for the over-all business model. When applying it to a project, expected costs are calculated while the project is still in the planning period and are approved beforehand. During the project, all expenses are recorded and monitored to make sure they stay in line with the cost management plan. After the project is finished, the predicted costs and actual costs can be compared and analyzed, helping future cost management predictions and budgets.

Implementing a cost management structure for projects can help a business keep their over-all budget under control.

#### ) **What Are the Different Types of Cost-Benefit Analysis Techniques?**

Cost-benefit analysis techniques are a common business activity owners and managers use to assess various projects. These techniques essentially compare the total capital investment for the project against its potential returns. Several techniques are available, with the most common being

- ✓ the payback period,
- ✓ net present value,
- ✓ Rate of return.

Companies can use one or all of the cost-benefit analysis techniques.

) **The payback period-** is generally the simplest of all cost-benefit analysis techniques. The method uses all the same information as the other techniques, except the calculation process is quite different.

First, a company must compute all costs associated with a project. This includes investment in fixed assets, costs for employees, and lost production time for training or implementation.



Second, the company divides the total for all these costs by the potential financial returns, resulting in the time it will take for the project to pay for itself.

- ) **The net present value technique** is a bit more technical than the payback period. The cost accumulation process is the same as the payback period. The company then uses the cost of capital associated with outside funds to pay for starting the new project. The estimation of future financial returns is also the same as the other cost-benefit analysis techniques. A financial manager will discount the total future financial returns using the company cost of capital to determine if the current value of the return is higher than the investment's cost.
- ) **The rate of return** is a common method a company can use for single or small investments. The basic formula for this process is the total gains from the investment less its total associated costs. Dividing the difference between these two items by the investment's cost produces a percentage return. Owners and managers use this percentage to determine if the investment is a worthwhile use of capital. Rate of return may be a hybrid method among different cost-benefit analysis techniques as companies can compare the return percentage to the cost of capital.

### ) **Cost Management Process and Project Cost Management**

Process helps you to monitor and report all expenses within a project.

Costs (or "expenses") are recorded by team members, using Expense Forms.

This project **cost management** process will help you to:

- ✓ Identify each of the costs within your project
- ✓ Ensure that expenses are approved before purchasing
- ✓ Keep a central record of all costs incurred
- ✓ Control the overall cost of your project

### ) **What is a Cost Management Process?**

A Cost Management process helps you control expenses within an organization. By purchasing the Project Cost Management process advertised here, you can ensure that all expenses are approved before they are paid. Using this project Cost Management process, you can ensure that your project is delivered within budget.

### ) **When do I use a Cost Management Process?**

If you want to control the way that expenses are incurred, then you need to implement a Cost Management process. It will help you to control project expenses,



ensuring that only expenses which have been approved, may take place. Using this Cost Management process, you can also keep your project plan up-to-date with the latest expense information available.

### ) **Knowing the Costs of an Enterprise**

- ✓ An entrepreneur who runs a business has to pay a lot of bills for goods and services she/he needs for the business, example for:
  - ✓ Raw materials,
  - ✓ Office furniture
  - ✓ Salaries for the workers, etc.
  - Telephone bills
- ✓ These expenditures are called costs.
- ✓ A business owner must know exactly the costs for the products or services she/he will sell.
- ✓ If the costs are higher than what the customer is willing to pay for a product or higher than the prices of the competitors, then she/he will not be able to sell her/his products. In such a situation an entrepreneur has to manage the costs.

**Self-Check -8****Written Test**

**Directions:** Answer all the questions listed below.

1. Which one of the following is the process of planning and controlling the budget of a business(2pt)

A. Principle of audits    B. Cost accounting    C. Cost management    D .All

2. List and explain the Different Types of Cost-Benefit Analysis Techniques. (3pt)

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**Note: Satisfactory rating - 3 and 5 points**

**Unsatisfactory - below 3**

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

Score = \_\_\_\_\_  
Rating: \_\_\_\_\_

**Answer Sheet**

**Name:** \_\_\_\_\_

**Date:** \_\_\_\_\_

**9.1. Type of factors and procedures in knowing the cost of the enterprise****) Type of costs**

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

**) These main classification of costs are :-**

- ✓ Direct and
- ✓ Indirect Costs

**) Direct cost**

- ✓ 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:

**1. Material Costs****2. Direct Labor Costs****A. 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 from the supplier to the enterprise are included in the direct costs

**B. 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.



### C. Indirect costs

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
- ) Indirect costs are also called overhead costs.
- ) Total cost of a product or service is  $\text{Sum of Direct Material Costs} + \text{Sum of Direct Labor Costs} + \text{Proportion of indirect costs}$
- ) All costs that occur in a business can be put into the following categories:
  - ✓ Staff costs
  - ✓ Material costs
  - ✓ Other costs
  - ✓ Capital costs

### D. Staff costs

An entrepreneur who employs staff becomes an employer and he/she will have legal and social responsibility for his/her employees.

It includes

- ✓ Minimum wages
- ✓ Legal duration of working hours
- ✓ Overtime payment
- ✓ Annual leave
- ✓ Sick leave
- ✓ Social security

### E. Material costs

- ✓ Necessary for the **functioning of the business**, such as office supplies or detergents for office cleaning, are also counted as material costs.
- ✓ Raw materials, e.g. plywood, metal bars, metal sheets, leather, wool, woven fabrics, plastics, flour, butter, etc.
- ✓ Standard materials, e.g. nails, screws, bolts, nuts, fittings, electrical appliances, spare parts, buttons, zipper, etc.
- ✓ Auxiliary materials, e.g. glue, paint, welding electrodes, welding gas, saw blades, grinding paper, etc.





### **F. 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

### **G. Capital costs**

- ✓ A business woman or businessman, who contracts a loan, has to pay interest for the duration of the loan.
- ✓ There is a very particular kind of capital cost that is called depreciation.
- ✓ This loss of value of machines, equipment or cars that are operating in an enterprise is called depreciation
- ✓ How is this depreciation calculated?

For example, a new delivery pick-up is purchased for 12,000 CU and its calculated lifespan is five years.

Its annual depreciation =  $12,000 \text{ CU} / 5 = 2,400 \text{ CU/year}$ .

**Self-Check -9****Written Test**

**Directions:** Answer all the questions listed below

- 1 Indirect costs are all other costs generated from business activities that are not direct costs. (1-pts)  
*A. True                      B. False*
2. Direct costs are composed of two cost sub-groups. These are: (2 point)  
A \_\_\_\_\_ B. \_\_\_\_\_
3. Indirect costs are all other costs generated from business activities that are:- (2 point)
  - A. overhead costs.
  - B. rent for the office premises
  - C. salary for the bookkeeper
  - D. , interest on the bank loan
  - E. costs that cannot directly be attributed to a specific product or service
  - F. All of the above

**Note: Satisfactory rating - 3 and 5 points                      Unsatisfactory - below 3**

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

Score = \_\_\_\_\_

Rating: \_\_\_\_\_

**Name:** \_\_\_\_\_

**Date:** \_\_\_\_\_



### 10.1. Preparation techniques of financial record keeping and simple financial statement

- Importance of financial record keeping

Why keep records?

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?

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

- **Specific questions they might ask include:**

A. How much do you own,?

B. What was your income last year?

C. How much of your sales are for cash and how much are for credit?

D. What has been your collection record?

E. What is your total “overhead” and what percentage of gross sales does it represent?

F. What expenses do you have?

#### ) **What kinds of records should a small business keep?**

- ✓ **Payroll.** The owner must know the amount paid to himself or herself and to employees.
- ✓ **Cash Balance.** The owner must know how much cash is available at any given time to determine if bills can be paid.
- ✓ **Accounts Receivable.** Under certain conditions, the owner extends credit to some customers.
- ✓ **Accounts Payable.** The amount of money owed by a business to others (such as suppliers) is called accounts payable.
- ✓ These bills need to be paid on time for two reasons:
  1. To receive a cash discount,
  2. To maintain a good reputation



## 10.2. Financial Statement

Financial statements provide an overview of a business' financial position, performance and changes in the financial position at a particular point in time or throughout a specified reporting period. With regard to surety underwriting, financial statements are a key component in determining a contractor's single job and aggregate bonding capabilities.

**The four main components to a financial statement and their general purpose are as follows:**

- ) **Balance Sheet;** Provides a company's assets, liabilities and equity position at a particular point in time
  - ) **Income Statement (often referred to as a Profit & Loss statement);** Reports the revenue/sales/income, expenses and profits of a company over a period of time
  - ) **Statement of Cash Flows;** Provides details regarding the cash flow activities of a company over a period of time with regard to operating, investments and financing activities
  - ) **Statement of Retained Earnings;** Explains the changes in a company's retained earnings (portion of net income undistributed by the company to its owners or shareholders)
- A. financial statement is part of financial information that help to determine the financial performance of a particular business.
- B. By using financial statements, the business can compare current performance with performance in previous years. T
- C. Here comparisons are essential for planning the future and also highlighting the strengths and weaknesses of the business operation.
- ) **Profit and Loss Statement**
- A profit and loss statement helps to determine whether a business is operating at a profit or a loss for a given time period of one month to one year.
- The more frequently you calculate your profits and losses, the sooner you will know the financial position of the business.
- ) **Who should be responsible for keeping the financial records?**



- ✓ Keeping the records yourself If the business is small and you have some experience, you may be able to keep the records for your business yourself.
- ✓ Assigning an assistant. All employees have some record keeping responsibility since they make out sales
- ✓ Hiring a full-time bookkeeper.
- ✓ Contracting the service out.
- ✓ Accounting department.

) **Five specific steps to calculating the profit and loss statements**

- ✓ Sales: including sales for cash and credit,
- ✓ Cost of Goods Sold: this is the price paid by the business for merchandise sold;
- ✓ Gross Profit: calculated by subtracting the cost of goods sold from sales
- ✓ Expenses this includes labor costs and other costs of operating the business
- ✓ Net Profit: this is the amount remaining when the expenses are deducted from the gross profit.

) **Financial plan**  
**Capital requirement**

Capital requirement/project cost?	Amount
<b>Fixed Assets</b>	
<b>Land</b>	
<b>Building</b>	
<b>Equipment</b>	
<b>Others</b>	
<b>Total Fixed assets</b>	
<b>Pre-operating expense</b>	
<b>Working capital /Operational costs of one months</b>	
<b>- Raw materials costs</b>	
<b>- Administrative expenses</b>	



- Staff cost of one month	
Total working capital	
Total capital requirement	

## 2-profit and loss statement (for manufacturing business)

Revenue:	Amount
Sales	
Less: Operating expenses	
Salary expenses	
Rent expenses	
Selling Expenses	
Interest Expense	
Miscellaneous expenses	
Net profit Before Tax	
Less: Estimated Income Tax	
Net profit After Tax	

## ) The Balance Sheet

The balance sheet presents the financial position of a business as of a specific date, much like a “snapshot” (e.g., As of December 2005). It is a report on the financial resources (assets) available to the business to carry out its economic activities as well as claims (liabilities) against its resources. The difference between assets and liabilities is the owner’s equity. This follows the fundamental accounting equation: Assets = Liabilities + Owner’s Equity.

## ) The main elements of the balance sheet are:

- ✓ **Assets** – economic resources of a business such as buildings, equipment, land, motor vehicles, amounts owed by customers (accounts receivable), patents and bank deposits.
- ✓ **Liabilities** – economic obligations to pay definite or reasonably certain amounts at a time in the future. They are claims against the business by creditors.



- ✓ **Owner's Equity** – residual interest of the owners in the business.  
The specific elements of the balance sheet are:
- ✓ **Current Assets** – include cash and those assets which in the normal course of business will be turned into cash generally within a year from date of balance sheet. These consist of cash, marketable securities (or temporary investments), accounts receivable, inventories and prepaid expenses (payments made in advance, such as insurance, from which the business has not yet received benefits). Therefore, current assets are mostly working assets in the sense that they are constantly being converted to cash.
- ✓ **Fixed Assets** – also referred to as property, plant and equipment, these represent those assets not intended for sale that are used over and over again in order to manufacture the product, display it, warehouse it, transport it. Fixed assets generally consist of land, buildings, machinery, and office equipment.
- ✓ **Depreciation** – defined for accounting purposes as the decline in useful value of a fixed asset due to wear and tear from use and passage of time. Fixed assets may also suffer a decline in useful value from obsolescence because new inventions and more advanced technologies are introduced. The cost incurred to acquire the property, plant and equipment must be spread over the expected useful life. The usual method used is straight-line depreciation. Land is not subject to depreciation.
- ✓ **Current Liabilities** – generally includes all debts that fall due in the coming year. Payments made on current debts generally come from a business' current assets.
- ✓ **Accounts Payable** – represents the amounts that the business owes to its regular business creditors from whom it has bought goods or services.
- ✓ **Notes Payable** – money owed to a bank or other lender (wherein a written promissory note has been given by the borrower).
- ✓ **Accrued Expenses Payable** – may include salaries and wages payable to employees, interest on funds borrowed from banks, insurance premiums and similar items. To the extent that the amounts owed are unpaid as of the balance sheet date, these expenses are grouped as a total under accrued expenses payable.
- ✓ **Income Taxes Payable** – amount of taxes owed and due



- ✓ **Long-term Liabilities** – debts due after one year from the date of the financial report

It would do well to prepare the income statement and the balance sheet on a regular basis to guide the entrepreneur on critical decisions that must be made with regard to the business. There are a number of technology solutions available to aid the entrepreneur in generating these financial reports

## Cash flow

### Projected monthly cash flow statement

Particulars	Pre-operating period	Month											
		1	2	3	4	5	6	7	8	9	10	11	12
Cash at the beginning of the month		10 700	20 850	37 550									
Cash inflow													
Equity	38 700												
Borrowings													
Cash sales		42 000	63 000	88 000									
Collection of A/R													
Other income													
Total cash inflow	38 700	52 700	83 850	125 550									
Cash outflow													
Pre-operating expense													
operating expense		31 850	46 300	60 750									
Purchase of fixed assets	28 000												
Taxes payable				11 275									
Total Cash outflow	28 000	31 850	46 300	72 025									
Cash at the end of the month	10 700	20 850	37 550	53 525									

## Balance sheet

Assets	Amount	Liabilities	Amount
<b>Current Assets</b>		<b>Current Liabilities</b>	
Cash at hand and bank	10 700	Accounts payable	
Accounts receivable		Taxes payable	
RM inventory		Others payable	
WIP inventory		Total Current Liabilities	
FG inventory		<b>Long-Term Liabilities</b>	
Total Current Assets	10 700	Loans	
<b>Fixed Assets</b>		Total liabilities	
Building	10 000	Owners Equity	
Equipment	18 000	Capital	38 700
Total Fixed Assets	28 000		
Total Assets	38 700	Total liabilities & capital	38 700





**Self-Check -10****Written Test**

**Directions:** Answer all the questions listed below.

1. List the four main components to a financial statement and their general purpose.(2 pt)

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2. List at least 7- the main elements of the balance sheet .(3 pts)

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**Note: Satisfactory rating - 3 and 5 points**

**Unsatisfactory - below 3**

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

Score = \_\_\_\_\_  
Rating: \_\_\_\_\_

**Name:** \_\_\_\_\_

**Date:** \_\_\_\_\_



### **11.1. Application of self-management skills and negotiation skills**

Negotiation is the application of basic principle that we all use on daily basis. It is a problem solving process for resolving conflicts in which all parties attempt to find a solution to which all will voluntarily agree.

In simplest terms, negotiation is a discussion between two or more disputants who are trying to work out a solution to their problem.



NATO Secretary General, Jaap de Hoop Scheffer (third from right) and High Representative for Common Foreign and Security Policy, Dr. Javier Solana (far left) meet on March 10, 2004. This is an official NATO photograph, obtained from <http://www.nato.int/multi/photos/2004/m040310a.htm>.

- ) Negotiation is a give and take bargaining process that when conducted well, leaves all parties feeling good about the result and committed to achieving it.
- ) In this course participants cover both the hard and soft skills of negotiation and conflict management and learn to distinguish between position and interest in the negotiation process.
- ) This highly interactive course explores a range of strategies, techniques and steps involved in the process of successful conflict management and negotiation. Amongst others, self-management, comprehensive preparation, systemic analysis and reflection and best alternatives are taught as ways to engage in negotiation and to defuse conflict.



## 11.2. Approaches to Negotiation

### 1.1 Principled Negotiation

Principled negotiation is the name given to the interest-based approach .according to Roger Fisher and William try. The book advocates **four fundamental** principles of negotiation:

- 1) **Separate the people from the problem**; separating the people from the problem means separating relationship issues (or "people problems") from substantive issues, and dealing with them independently. People problems
- 2) **Focus on interests, not positions**; Negotiating about interests means negotiating about things that people really want and need, not what they say that want or need.
- 3) **Invent options for mutual gain**; By focusing on interests, disputing parties can more easily fulfill the third principle--invent options for mutual gain.
- 4) **Insist on objective criteria**. The fourth rule is to insist on objective criteria for decisions. While not always available, if some outside, objective criteria for fairness can be found, this can greatly simplify the negotiation process.

### 4.2 Fundamental Principles of Negotiation:

#### **Focus on your target:**

One of the laws of "human nature" which holds true in negotiations is that those who set and focus on the most favorable targets achieve the most favorable settlements.

#### **Manage Information Skillfully:**

Managing information means planning and preparing before the negotiation, which will empower the negotiator.

#### **Know and Maintain Your Power:**

Negotiations center around power. To be successful in a negotiation, you must recognize and develop all of your sources of power. When you have confidence and are fully aware of your power, you are able to act with the level of conviction and resolve necessary to persuade other negotiators and produce fair and favorable settlements.

#### **Emphasize Needs Over Wants:**

#### **Concede Strategically:**

To concede strategically means to develop a plan that manages the concession process that will enable the negotiator to exert control over the negotiation process and outcome.



### **3-The Negotiation Process**

Discover what the other side knows

Educate the other side on your position

Create doubt about the other side's position

Make the other side advocates for your position

Determine enforcement means

Enhance implementation through good relationship

#### **4.11.2 Application of self management skill**

##### **Self Management Skills**

The ability to manage your own self is very important for the development of an individual. It helps one to become more responsible in life. Let us know more about the topic Self management skills are vital for the development of an individual. Often, we blame others or the situation for our failures, but if we do a bit of retrospection, the challenges that we face can very well be a result of poor planning - something which stems from the lack of self management.

These skills may be inherited by the select few, but most of us are acquainted with these by our parents, teachers or employers. It is also important to mention that these skills cannot be developed overnight and it takes a sustained effort on our part to be able to manage ourselves in a better way. Self management does not necessarily mean that we will reach the zenith of perfection, but what it essentially implies is bringing some amount of discipline in our lives.

##### **4.11.2 Self Management Qualities**

- ) Self management helps an individual in becoming a better employee. It inculcates qualities such as punctuality, discipline and subservience.
- ) It encourages one to develop new skills over a period of time. In today's scenario, it is important to be multifaceted, so that there are myriad opportunities of growth for an individual.
- ) It helps in the development of interpersonal skills. It has often been seen that most of the issues arise due to miscommunication. It helps an individual to keep negative emotions at bay and develop good relationships with people.
- ) It advocates the prophecy of being responsible for one's actions. It makes an individual feel a part of the whole activity. For example, in a household with young kids, it is often the parents who have to take care of the issues concerning their



children. However, with a bit of self management, kids can reduce some of the responsibility of their parents. This also helps them to know themselves in a better way apart from helping in character building.

Self management skills should ideally start at the school level so that students become responsible for themselves. There are a lot of challenges that we face on a day-to-day basis and help us deal with these in a better way. Today, one challenge that most of us face is stress. It can be effective in developing a strategy to dispel negative emotions. These can help one to look at the positive side of things. There are times when the going gets tough and our emotions get the better of us, so it is important that we are able to regain our composure. It instills a sense of confidence in an individual which helps in problem solving. Pressure situations require someone who is cool-headed, as decisions in haste can prove to be fatal for an individual or an entity. It also helps in ensuring that even the most difficult problems are dealt within a systematic manner.

#### **4.11.3 Self-management Skills**

Self-management skills tell an employer whether or not your personality fits the personality of the company, the bosses, and the co-workers. Most of the people who are not successful on the job have trouble with their co-workers and bosses, so it's important for you to show employers how you fit into their operations.

Many employers would rather hire an inexperienced worker with good self-management skills than an experienced worker who might cause problems.

#### **Self-Management Skills List**

Here is a list of the key self management skills required for an employee to be more productive. I

##### **1. Stress-Resistance**

When you develop this self management skill, you can avoid many mistakes that people usually make when being stressed out.

##### **Problem Solving**

The second self-management skill requires you to use your brain as a mechanism for making right decisions. Even the hardest tasks and challenges can be efficiently handled if the mental process in your head is always in progress.

##### **Communication**



The way how you can communicate information to others will determine your success. Communication is one of the **key self-management skills** required for both personal development and career advancement.

### **Time Management**

Producing expected results in a timely manner defines the success of our effort. Time management is an extremely important self-management skill that makes an employee be more productive.

### **Memory**

An ability to memorize events, names, facts, etc., allows an employee to remember about everything he/she needs to do daily tasks and duties.

### **Physical Activity**

Keeping your body in good shape is a critical self-management skill example. When you feel healthy and have a robust nervous system, you can do more things and cope with many challenges.

## **4.11 Process of risk assessment ,management. and evaluation of business enterprise**

- ✓ 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 assess the likelihood of the firm's success and the extent to which their efforts could influence this likelihood.
- ✓ They study the market situation, explore profitability in alternative lines of business, products, machinery and processes, finances, and make comparisons before making their final decision.
- ✓ They like to influence the outcome through their own efforts and then having a sense of accomplishment.
- ✓ Planning may be considered an indicator of the calculated risk taking behavior of entrepreneurs.
- ✓ Planning safeguards against possible difficulties that can be anticipated.
- ✓ If entrepreneurs are able to influence whether or not the firm is successful, they would be very likely to purchase the firm as proposed in the above example.
- ✓ Entrepreneurs are willing to accept personal responsibility for the consequences of their decisions, regardless of whether these consequences are favorable or unfavorable.



- ✓ Other people may find it difficult to accept personal responsibility for decisions which may lead to failure, and they often attribute events in their lives to
- ✓ Luck or to forces beyond their control, such as competition or government interference.
- ✓ These people reject risk situations because they believe that they cannot influence the outcome.
- ✓ Most entrepreneurial traits are interrelated. Risk-taking behavior is related to: Creativity and innovation, and it is an essential part of turning ideas into reality. Self-confidence: the more confidence you have in your own abilities, the more able you will be in affecting the outcome of your decisions and the greater your willingness will be to take risks.
- ✓ Another factor is the entrepreneurial excitement regarding uncertainty, and the drive and enthusiasm to ensure that the consequences are successful.

#### **4.12 Application techniques of management of business enterprise**

- ✓ An efficient record keeping system is required for any business.
- ✓ All business transactions should be fully recorded on paper.
- ✓ A transaction is any exchange of money for something else.
- ✓ Daily cash record provides a written record for money coming in and money going out of a business through transactions.
- ✓ Money comes into a business primarily by selling goods or services,
- ✓ Money goes out of a business to pay for goods, raw materials, labour, rent, electricity and other business expenses.
- ✓ All businesses should keep written records regarding money coming in and money going out of the business.

#### **) Financial records can help entrepreneurs to:**

- ✓ keep control of cash
- ✓ know how well the business is doing
- ✓ show others, such as the banks, how well the business is doing
- ✓ plan for the future



**Self-Check -11****Written Test**

**Directions:** Answer all the questions listed below.

1. List the fundamental Principles of Negotiation.(2point)

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1. List of the key self management skills required for an employee to be more productive. .(2point)

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2. write the applications techniques of management of business enterprise .(2point)

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**Note: Satisfactory rating - 3 and 5 points**

**Unsatisfactory - below 3**

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

Score = \_\_\_\_\_  
Rating: \_\_\_\_\_

**Name:** \_\_\_\_\_

**Date:** \_\_\_\_\_



# **Basic Electrical Electronics Equipment Servicing Level I Learning guide –61**

Unit of Competence:      Develop underfunding of  
Entrepreneurship

Module Title:            Developing underfunding of  
Entrepreneurship

LG Code:      EEL BEE1 M14 Lo5-LG61

TTLM Code:              EEL BEE1 TTLM 0919V1

## **LO5.            Develop    one's    own business plan**



This learning guide is developed to provide you the necessary information regarding the following learning outcome coverage:–

- ) Discussing and applying process of preparing/ writing a business plan
- ) Applying standard structure and format in preparing business plan
- ) Interpreting, assessing and analyzing findings of the business plan.
- ) Clearing and understanding feasibility of the business idea
- ) Identifying and understanding problems that may arise or encounter
- ) Discuss and understand techniques in obtaining and sourcing information
- ) 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 in preparing business plan
- ) Interpret, assess and analyze findings of the business plan
- ) Clear and understand feasibility of the business idea
- ) Identify and understand problems that may arise or encounter
- ) Discussing and understanding techniques in obtaining and sourcing information

### **Learning Instructions:**

1. Read the specific objectives of this Learning Guide.
2. Follow the instructions described below 3 to 6.
3. Read the information written in the information “Sheet 1, Sheet 2 , and Sheet 3
4. Accomplish the “Self-check 1, Self-check 2, Self-check 3 ,Self-check 4 , Self-check 5 and, Self-check 6 **in page -173, 184, 187,193,196, and 204** respectively.
5. If you earned a satisfactory evaluation from the “Self-check” proceed to “Operation Sheet 1, **in page ---.**
6. Do the “LAP test” **in page ---** (if you are ready)



## Information Sheet-1

## Discussing and applying process of preparing/ writing a business plan

### 1.1. Introduction to preparing/ writing a business plan

This document which spells out the goals and objective of a business and clearly outlines how and when they will be achieved. It is structured guideline to achieve a business goal. It is a road map to owning and operating a business. It is proposal that describes a business opportunity for financing agencies or investors. It is detailed action program outlining every conceivable aspect of the proposed business venture.

#### ) **Meaning and Concepts of Business Plan**

Running a business can be intensely satisfying but also hugely challenging. Business owners face a multitude of demands on their time, balancing the need to priorities and deal with a range of urgent tasks while also finding time to look at the bigger picture. As an entrepreneur, you may well be driven by a passion for what you offer, and focused on what customers want and how you can gain an edge on your competitors. You will also recognize how important it is to be able to raise the financing you need. In fact, financial management can contribute much more to achieving your business goals.

Business planning helps you identify, assess and capitalize on new opportunities. It lets you think through your options and create an action plan that minimizes costly mistakes. It is also a crucial tool if you need to convince financiers and others to support your business. Skilled financial management is critical for putting your plan into practice. Effective administration, compliance and cash flow management are just the starting point. Financial skills let you track and measure performances, identify problem areas and new opportunities, and minimize risks.

### 1.1. Steps of business plan preparation

- ) Is the result of ongoing process but not end result
- ) A document which spells out the goals and objective of a business and clearly outlines how and when they will be achieved.
- ) A structured guideline to achieve a business goal.
- ) A road map to owning and operating a business.



- ) A proposal that describes a business opportunity for financing agencies or investors.
- ) A detailed action program outlining every conceivable aspect of the proposed business venture.

### ) **How to Write a Business Plan**

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

### ) **Purpose of the Business Plan**

A formal business plan is just as important for an established business, irrespective of its size, as it is for a startup. It serves four critical functions as follows: Helps management or an entrepreneur to clarify, focus and research their businesses or project's development and prospects.

- ✓ Provides a considered and logical framework within which a business can develop and pursue business strategies over the next three to five years.
- ✓ Serves as a basis for discussion with third parties such as shareholders, agencies, banks, investors etc.
- ✓ Offers a benchmark against which actual performance can be measured and reviewed.
- ✓ Just as no two businesses are alike, so also with business plans. As some issues in a plan will be more relevant to some businesses than to others, it is important to tailor a plan's contents to suit individual circumstances. Nonetheless, most plans follow a well-tried and tested structure and general advice on preparing a plan is universally applicable.
- ✓ A business plan should be a realistic view of the expectations and long-term objectives for an established business or new venture. It provides the framework within which it must operate and, ultimately, succeed or fail. For management or entrepreneurs seeking external support, the plan is the most important sales document that they are ever likely to produce as it could be the key to raising finance etc. Preparation of a comprehensive plan will not



guarantee success in raising funds or mobilizing support, but lack of a sound plan will, almost certainly, ensure failure.

### ) **Importance of the Business Planning Process**

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

### ) **Types of business plane**

- ✓ For retail businesses
- ✓ For wholesale businesses
- ✓ For service businesses
- ✓ For manufacturing businesses
- ✓ For any other type of business
- ✓ For the financier
- ✓ For the owner/manager

### ) **What contained the business plane**

- ✓ -Customers
- ✓ -Suppliers
- Competitors
- Financiers



✓ -Employees

- Products

✓ Locations

-Equipment

### 1.2.1. Steps in the Business Planning Process

) **Before creating the business plan you should be perform the**

#### **Following steps**

##### **1. Define Customer Need**

- ✓ Before starting a venture, you must be certain that your target customer groups have a strong, even urgent need for the product or service you will be offering. Show that you are providing well-defined, quantifiable benefits, such as saving them 25% versus the product that they have been using. Unless the need is compelling and the solution you are providing is significantly better than what customers can get from your competitors, they will not be willing to spend money on it.

) **Research the Market**

- ✓ Investors seek out companies in markets that are just now emerging or are about to enter a rapid growth phase. This is often called having a first-to-market advantage, being the first company to take advantage of a new opportunity. Present a clear case about why your market is vibrant, with excellent growth prospects for the next three to five years.

) **Study the Competition**

- ✓ Entrepreneurs often underestimate the strength of their competitors and how entrenched they are within the market. Pinpoint the weaknesses you think competitors have--which you intend to exploit to build your competitive advantage--but be realistic about the competition your venture is going up against.

) **Develop a Business Model**

- ✓ Where will your revenues come from? That's the central idea of a business model. Present how many different ways you will generate revenues. If you can earn more than one revenue stream from a customer, that is a positive factor in your model. The business model also explains the factors and conditions that will cause your company to be profitable. You might have scalability, meaning you can rapidly grow revenues without a corresponding increase in costs.



## ) **Describe How the Team Fits Together**

- ✓ Companies succeed because the right management team has been assembled, not simply because they have a superior technology to offer the marketplace. The team members must be able to work in harmony during the often stressful early days of the company's existence. Combined, they must have specific skills, experience and the drive to succeed that will enable them to execute the strategy outlined in the business plan.

## ) **Prepare Financial Projections**

- ✓ Financial projections must be realistic and based on concrete assumptions. How the company derived the numbers is just as important to investors as how attractive the forecast profit appears. It usually takes longer than anticipated for sales momentum to build in an early-stage company. Try to make the first year's projections conservative.

### **1.2.2. Planning the Business Plan**

#### **1- Steps to Creating a Simple Business Plan**

Your business plan is like a road map to long-term success. Have you ever been in a situation where you didn't have a map to find your destination and got lost wasting precious time and money? Well, the same can happen to your business if you don't plan out your business strategies.

**1. Name of your business** - create a name or reevaluate the name of your business. Does it integrate well with what you are selling? Is it easy to spell and remember? Is it a name that can be well branded over time?

#### **2-Start with a Business Strategy**

- ✓ A short strategic plan (2-3 pages) can provide a very useful foundation on which to base a much more detailed and comprehensive business plan.
- ✓ If you don't have a sensible strategic plan, how can you realistically write a sensible business plan? Use a short strategic plan as the foundation for a more comprehensive business plan.
- ✓ As the prelude to developing a strategic plan, it is desirable to clearly identify the current status, objectives and strategies of an existing business or the latest thinking in respect of a new venture.





- ✓ **Strengths, weaknesses, opportunities, threats (SWOT)** -by analyzing these characteristics in your business, you will get a clearer idea of what it will take for you to not only to survive but also prosper.

) **This could include such factors as:**

- ✓ your companies own changing industry
- ✓ The marketplace which may change due to social and economic conditions.
- ✓ Competition which may create new threats and/or opportunities.
- ✓ New technologies which may cause you to change products or the process in how you do things.

) **Evaluating your SWOT will help you to:**

- ✓ Build on your strengths
- ✓ resolve your weaknesses
- ✓ exploit opportunities
- ✓ avoid threats

This then leads to strategy development covering the following issues which are discussed in more detail immediately below:

- **Vision**

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

- **Mission**

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

- **Objectives**



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

### **B. Values**

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

### **C. Strategies**

Next are the **Strategies** - the rules and guidelines by which the mission, objectives etc. may be achieved. They can cover the business as a whole including such matters as diversification, organic growth, or acquisition plans, or they can relate to primary matters in key functional areas, for example:

The company's internal cash flow will fund all future growth.

- ✓ New products will progressively replace existing ones over the next 3 years.
- ✓ All assembly work will be contracted out to lower the company's break-even point.

### **D. Goals**

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

### **E. Programs**

The final elements are the **Programs** which set out the implementation plans for the key strategies. It goes without saying that the mission, objectives, values, strategies and goals must be inter-linked and consistent with each other. This is much easier said than done because many businesses which are set up with the clear objective of making their owners wealthy often lack strategies, realistic goals or concise missions.

For more information on strategic planning, refer to other papers in this series entitled Developing a Strategic Business Plan (and its accompanying worksheet) and Devising Business Strategies, and consider utilizing the free Online Strategic Planner. See also a sample strategic plan - you may wish to print it for reference purposes.



## ) Planning the Business Plan

### ▪ Develop an Outline Business Plan

Start by defining an outline (i.e. a table of contents) of your plan. This will allow you to concentrate on the essentials of planning the business rather than becoming too absorbed in the detailed drafting of your plan. It will allow you to see the wood from the trees. Having devised the basic outline for your business plan, the next task is to expand this to include subheadings and appendix titles (see the Business Plan Guide for detailed suggestions). This extended structure should be critically reviewed to ensure that all the salient elements of the plan are included and that it has a logical flow. This approach should also ensure that the plan has appropriate levels of detail and is correctly targeted at its audience - investors, directors/shareholders, financial institutions etc. For example, a structure which is mainly devoted to detailed technical descriptions of products would be completely unsuited to a plan being used to raise bank finance.

### ▪ Prepare a Business Planning Work Program

Once the plan's structure has been defined, it can be used as a checklist and basis for a work program and timetable to complete the plan. This work program will often entail extensive research and thought prior to the commencement of writing.

For example, formal market research may be needed before sales volumes and prices can be determined. Another example: professional advice may be required to assess capital expenditures in relation to the acquisition of premises and so on.

## ) Outline the Business Plan

The next section presents an outline structure for a business plan. Feel free to change this outline to suit your project and its state of development. It can be readily expanded to become a 'full-blown' business plan by extending the level of detail as explained in the Business Plan Guide.

**Note: A free 150-page Business Plan Guide and Template (Word format) incorporating a similar outline structure and additional detail is available for downloading here.** The suggested page lengths for a comprehensive plan are given in parenthesis after each section's heading within the outline. A small, straightforward business should work within the minimum page lengths whereas a large, complex business seeking a substantial external investment might hit the



**maximum** page lengths. Note the importance of marketing and sales in terms of the suggested number of pages for these sections. For more guidance on the length of business plans, have a look at Insights into Business Planning. Avoid going into too much detail within the plan's body by placing detailed or supplementary material in accompanying appendices. Bear in mind that most investors, bankers etc. dislike having to read overlong business plans just as much as entrepreneurs and managers dislike writing the plans in the first instance! Work on the assumption that whoever reads your plan will be completely unfamiliar with your business or project and will be seeking answers to relatively basic questions and key issues, for example, what will the business do, will it make money etc.

**Self-Check -1****Written Test**

**Directions:** Answer all the questions listed below.

1. Write Steps of business plan preparation ( 2 point).

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2. Before creating the business plan what you should be perform the Steps you follow. (2 point).

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3. List Types of business plane. (1 point).

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**Note: Satisfactory rating - 3 and 5 points                      Unsatisfactory - below 3**  
You can ask you teacher for the copy of the correct answers.

Score = \_\_\_\_\_  
Rating: \_\_\_\_\_

**Name:** \_\_\_\_\_

**Date:** \_\_\_\_\_

**2.1. Introduction of standard structure and format in business plan.**

- ) The next section presents an outline structure for a business plan. Feel free to change this outline to suit your project and its state of development.
- ) It can be readily expanded to become a 'full-blown' business plan by extending the level of detail as explained in the Business Plan Guide.
- ) Business Plan Outline to introduce the plan and explain who wrote it, when and for what purpose
- ) Use the outline below as the "road map" for your plan and then write up each section concisely but comprehensively.
- ) Only address matters of real substance and major significance within the main sections of the plan.

**1. Summary**

- ✓ Write last. Present the highlights of the plan.

**2. Strategic Overview**

- ✓ Present the "big picture". What are the central purposes and activities of the planned business? What are its SWOTs? What are its major (long term) objectives, key strategies and prime goals

**3. Present Status**

- ✓ Summarize achievements and performance (financial, sales, technical etc.) to date. Introduce the stakeholders in the business.

**4. Product/Service Offerings**

- ✓ Keep descriptions short and confine them to broad groups. Explain briefly what makes them special.

**5. Profiles of Target Markets**

- ✓ Size, segments, trends, competition and user/customer profiles.

**6. Marketing Strategies, Sales Plans & Projections**

- ✓ How will the business market its products/services and sell to customers? What sales will be achieved in its main markets? How will it deal with competitors?



## **7. Technology and R&D**

- ✓ If relevant, explain progress, plans, and resources and highlight any technological advances.

## **8. Operational/Manufacturing Plans**

- ✓ Cover distribution & service activities and/or manufacturing. Highlight major elements only. Indicate organization, resources, costing etc.

## **9. Management & Administration**

- ✓ Introduce the proposed management team, structure etc. Indicate administrative arrangements and specify overhead costs.

## **10. Financial Projections**

- ✓ Use simple tables to present key financial projections e.g. summary P&L, cash flows, balance sheets and key ratios. Place the detailed analyses in appendices.
- ✓ For more help, download a trial version of our financial planners - [Exl-Plan](#) (for Excel) - and review its annual output reports and Textual Summary Report.

## **11. Funding Requirements & Proposals**

- ✓ If applicable, summarize funding requirements, possible sources, likely terms, and, for investors, the projected return on their investment. Be realistic!!

## **12. Implementation**

- ✓ Explain the major decision points, time scale and actions required by management and others to progress the plan.

## **13. Conclusion**

- ✓ Indicate why the business will succeed and why it should be supported.

## **14. Conclusion**

### **) Appendices**

- ✓ Use appendices at the very back of the plan to present important background data and detailed plans.
- ✓ This will avoid disrupting the flow of the plan or cluttering it with excessive detail. See Appendices within the Business Plan Guide for more info.

## **7. General formats of preparing business plane**

### **1. Executive summary**

#### **1.1. Brief description of the business**

##### **Ñ Name of business**

#### **1.2. The legal form of the business will be:**



**Sole proprietorship          partnership          limited company**  
**Corporation**

**1.3. Reason for choosing this legal form**

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**1.4. Contact address**

**Tel.** \_\_\_\_\_

**E-mail** \_\_\_\_\_

**Fax.** \_\_\_\_\_

**1.5. Type of business**

☐ **Manufacturer**      ☐ **Service provider**      ☐ **Wholesaler**      ☐ **Retailer**

**1.6. Brief description of the business idea**

**- Products or service**

**- Target Market** \_\_\_\_\_

**1.7. Projects contribution to the economy**

.....

**1.8. Owner(s) profile**

No	Name	Address	Qualification	Function in the business	relevant experience
1					
2					
3					

**2 -Marketing plan**

**2.1 Description of the market**

) (Geographical area, town, type of customers, size of total market, description of competitors, market share for the new business, etc.)

**2.2 Marketing Plan Product**

**2.2.1 Detailed description of the product or product range or service**

**2.2.2 Product/service type** \_\_\_\_\_

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





**2.2.4 Specification of the product** \_\_\_\_\_

**2.2.5 After sales service** \_\_\_\_\_

### **2.3. Marketing plane price**

**2.3.1 How much are customers willing to pay?**

Highest \_\_\_\_\_

Average \_\_\_\_\_

Lowest \_\_\_\_\_

**2.3.2 How much are competitors' price?**

**2.3.3 How much is your price?**

Highest \_\_\_\_\_

Average \_\_\_\_\_

Lowest \_\_\_\_\_

**2.3.4 What are the reasons for setting your price?** \_\_\_\_\_

**2.3.5 Is their discount on bulk purchase? If yes** \_\_\_\_\_ %

### **2.4 Marketing Plan Place**

**2.4.1 Location of the business (description of the planned location of the business)**

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**2.4.2 Reason for choosing the location the business**

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**2.4.3 How to distribute the product /service to customers?**

Directly to customers

Through retailers or wholesalers'

**2.4.4 Reason for choosing this way of distribution**

### **2.5 Marketing Plan Promotion**

Advertisement

Personal selling, etc.

## **3 PRODUCTION PLAN**

**3.1 List of production steps..**

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**3.2 Prepare working drawing** \_\_\_\_\_

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### 3.3 Select raw materials

### 3.4 List fixed assets needed and their cost

No	Item	Quantity	Amount	Cost
1				
2				
	TOTAL			

### 3.5 What is useful life time of each fixed asset

No	Investment Item	Life span in years	Depreciation (%)
1	Building	20	5
2	Simple machine	8-10	12.5-10
3	special machine	3-5	33.3-20
4	Hand tools	3	33.3
	Vehicle	5	20

### 3.6 Brief description of production capacity of the project per month:

1<sup>st</sup> month \_\_\_\_\_

2<sup>nd</sup> month \_\_\_\_\_

3<sup>rd</sup> month \_\_\_\_\_

### 3.7 Factory/plant location and layout

### 9-List of raw materials needed per month

No	Raw materials needed per month	DIMENSION /Specification/	QUANTITY	UNIT COST	TOTAL COST
1					
2					
	Total cost				

### 3.8 Staff cost



No	Position	Qualification	Salary per month	Remark
1				
2				
3				
4				
	<b>Total</b>			

### 3.9 Factory overhead expenses

No	Overhead expenses	Amount per month
1	Indirect labor	
2	Electricity	
3	Maintenance	
4	Depreciation of fixed capital	
	<b>Total</b>	

### 3.10 -Production costs of each item to be produced

- Raw materials per month \_\_\_\_\_

- Direct labor per month \_\_\_\_\_

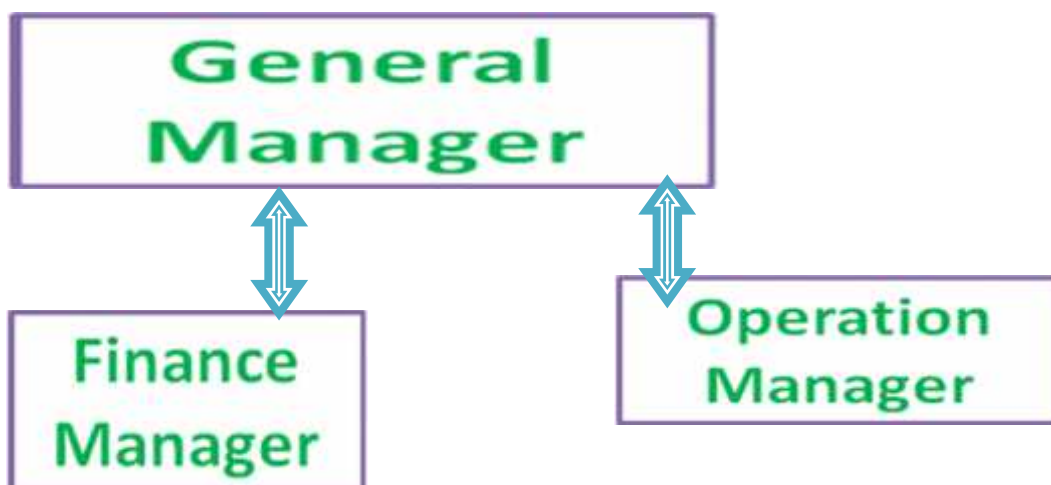
-        **Factory        overhead        expenses        per        month**

\_\_\_\_\_

**Total production cost** \_\_\_\_\_

## 4. ORGANIZATION AND MANAGEMENT PLAN

### 4.1 Organizational structure



### 4.2 administrative expenses



NO	administrative expense	Amount
	Allowance	
	Supplies	
	Supplies	
Total		

## 5-FINANCIAL

## PLAN

### 5.1 Capital requirement

Capital requirement/project cost?	Amount
<b>Fixed Assets</b>	
Land	
Building	
Equipment	
Others	
Total Fixed assets	
Pre-operating expense	
Working capital /Operational costs of one months	
- Raw materials costs	
- Administrative expenses	
- Staff cost of one month	
Total working capital	
Total capital requirement	

### 5.2-profit and loss statement (for service business)

Revenue:	Amount
Sales	
Less: Operating expenses	
Salary expenses	
Rent expenses	



<b>Selling Expenses</b>	
<b>Interest Expense</b>	
<b>Miscellaneous expenses</b>	
<b>Net profit Before Tax</b>	
<b>Less: Estimated Income Tax</b>	
<b>Net profit After Tax</b>	

#### Annual projected profit& loss statement (for manufacturing)

<b>Gross sales</b>	
<b>Less: Returns</b>	
<b>Net Sales</b>	
<b>Less: Cost of goods sold</b>	
<b>Gross profit</b>	
<b>Less: Administrative &amp; Selling Expenses</b>	
<b>Operating profit</b>	
<b>Less: Interest Expense</b>	
<b>Net profit Before Tax</b>	
<b>Less: Estimated Income Tax</b>	
<b>Net profit After Tax</b>	

### 5.3-Cashflow

#### Projected monthly cash flow statement

Particulars	Pre-operating period	Month											
		1	2	3	4	5	6	7	8	9	10	11	12
<b>Cash at the beginning of the month</b>													
<b>Cash inflow</b>													
<b>Equity</b>													
<b>Borrowings</b>													



Cash sales														
Collection of A/R														
Other income														
Total cash inflow														
Cash outflow														
Pre- operating expense														
operating expense														
Purchase of fixed assets														
Taxes payable														
Total Cash outflow														
Cash at the end of the month														

#### 5.4-Balance sheet

Assets	Amount	Liabilities	Amount
Current Assets		Current Liabilities	
Cash at hand and bank		Accounts payable	
Accounts receivable		Taxes payable	
RM inventory		Others payable	
WIP inventory		Total Current Liabilities	
FG inventory		Long-Term Liabilities	
Total Current Assets		Loans	



<b>Fixed Assets</b>		<b>Total liabilities</b>	
<b>Building</b>		<b>Owners Equity</b>	
<b>Equipment</b>		<b>Capital</b>	38 700
<b>Total Fixed Assets</b>			
<b>Total Assets</b>		<b>Total liabilities &amp; capital</b>	39 00

### 5.5 Break-even point

**Breakeven Quantity =  $\frac{\text{Total fixed cost}}{\text{price per unit} - \text{variable cost per unit}}$**

**Breakeven point =  $\frac{\text{Total fixed cost} \times \text{price per unit}}{\text{price per unit} - \text{variable cost per unit}}$**   
**(breakeven sales level in dollar terms)**

**Self-Check -2****Written Test**

**Directions:** Answer all the questions listed below.

1. List the General formats of preparing business plane. (3 point).

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2. Write the legal form of the business. (2 point).

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3. what is business plan \_\_\_\_\_

**Note: Satisfactory rating - 3 and 5 points                      Unsatisfactory - below 3**

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

Score = \_\_\_\_\_

Rating: \_\_\_\_\_

**Name:** \_\_\_\_\_

**Date:** \_\_\_\_\_





### **3.1. Techniques of interpretation, assessment and analyzing findings of the business plan**

#### **) Analysis of data**

It is a process of inspecting, cleaning, transforming, and modeling data with the goal of highlighting useful information, suggesting conclusions, and supporting decision making. Data analysis has multiple facets and approaches, encompassing diverse techniques under a variety of names, in different business, science, and social science domains. Several analyses can be used during the initial data analysis phase but one of the simplest analyses is called Univariate analysis

#### **) Univariate analysis**

It is the simplest form of quantitative (statistical) analysis.

The analysis is carried out with the description of a single variable and its attributes of the applicable unit of analysis. For example, if the variable age was the subject of the analysis, the researcher would look at how many subjects fall into a given age attribute categories.

A basic way of presenting univariate data is to create a frequency distribution of the individual cases, which involves presenting the number of attributes of the variable studied for each case observed in the sample. This can be done in a table format, with a bar chart or a similar form of graphical representation

#### **3.1.1. Analyze 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?



### **A. 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:

### **B. 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.

### **C. 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?

**Self-Check -3****Written Test**

**Directions:** Answer all the questions listed below.

1. \_\_\_\_\_ is a process of inspecting, cleaning, transforming, and modeling data with the goal of highlighting useful information, suggesting conclusions, and supporting decision making. (2.point)

- A. Analysis of data
- B. Univariate analysis
- C. Market analysis
- D. System-Oriented

2. Write the objective business idea analysis system (3.point)

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**Note: Satisfactory rating - 3 and 5 points**

**Unsatisfactory - below 3**

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

Score = \_\_\_\_\_

Rating: \_\_\_\_\_

**Name:** \_\_\_\_\_

**Date:** \_\_\_\_\_

**4.1. Understanding feasibility of the business idea**

- ) There is no magic answer to this question. Experience has shown that some of the most bizarre 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 analyze your business idea, market and competitive advantage as well as the financial feasibility of the business.

**4.2. Feasibility of the business idea****) What is a feasibility study?**

- ✓ A feasibility study looks at the viability of an idea with an emphasis on identifying potential problems and attempts to answer one main question: Will the idea work and should you proceed with it?
- ✓ In business it is used to support decision making process based on a cost-benefit analysis of the actual business or project viability.
- ✓ It is conducted during the deliberation phase of the business development cycle prior to commencement of a formal business plan.
- ✓ Before you begin writing your business plan you need to identify how, where, and to whom you intend to sell a service or product. You also need to assess your competition and figure out how much money you need to start your business and keep it running until it is established.



- ✓ Feasibility studies address things like where and how the business will operate. They provide in-depth details about the business to determine if and how it can succeed, and serve as a valuable tool for developing a winning business plan.

### ) **Why Are Feasibility Studies so Important?**

The information you gather and present in your feasibility study will help you:

- ✓ List in detail all the things you need to make the business work;
- ✓ Identify logistical and other business-related problems and solutions;
- ✓ Develop marketing strategies to convince a bank or investor that your business is worth considering as an investment; and Serve as a solid four
- ✓ Nation for developing your business plan.

## **4.3. The Components of a Feasibility Study**

### ) **A feasibility study contains five major components namely:**

- ✓ Marketing study,
- ✓ Technical study,
- ✓ Organizational and production study
- ✓ Management study,
- ✓ Financial study and
- ✓ Social desirability Study and
- ✓ Environmental desirability study.

### ) **Description of the Business**

- ✓ The product or services to be offered and how they will be delivered.
- ✓ How customers would use and buy the product or service
- ✓ Key components or raw materials that will be used in the product, how the business will source these and how available they are.
- ✓ Plans to test the product to ensure it works as planned and is sufficiently durable, strong, secure, etc.

### ) **Market Feasibility study**

- ✓ The industry in which the business operates. Include the size, growth rate, etc
- ✓ demand and supply factors and trends
- ✓ target market for the products and clearly state why would customers buy the produce
- ✓ the level of actual market demand and anticipated future market potential
- ✓ Direct and indirect competition (as it pertains to the target market only).What is



- ✓ unique about the enterprise's product compared to the competition?
- ✓ list all key barriers to entry

#### ) **Technical Feasibility study**

- ✓ Details how you will deliver a product or service (i.e., materials,
- ✓ Labor ,transportation, where your business will be located, technology needed, etc.).
- ✓ additional or ongoing research and development needs

#### ) **Financial Feasibility study**

- ✓ Projects how much start-up capital is needed and when? What sources will provide the capital?
- ✓ balance sheet projections
- ✓ income projections
- ✓ cash flow projections
- ✓ When will the enterprise begin to turn a profit, i.e BEA?
- ✓ What is the expected return on investment (ROI)?
- ✓ Will the enterprise provide a viable ROI for the entrepreneur (cost benefit analysis)?

#### ) **Organizational and production Feasibility study**

- ✓ Defines the legal and corporate structure of the business (may also include professional background information about the founders and what skills they can contribute to the business).
- ✓ What physical premises are required? Give location, size, condition, and capacity of planned production and warehouse facilities.
- ✓ How complex is the manufacturing process? Describe equipment needed and costs.
- ✓ Will space be owned or leased? Will renovations be required? At what costs?

#### ) **Management and personnel Feasibility study**

- ✓ List the proposed key managers, titles, responsibilities, relevant background, experience, skills, costs
- ✓ 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?



## ***What is a 'Feasibility Study'***

A feasibility study is an analysis of how successfully a business can be completed, accounting for factors that affect it such as economic, technological, legal and scheduling factors. Business owner use feasibility studies to determine potential positive and negative outcomes of a business before investing a considerable amount of time and money into it.

**There are some basic steps that apply to all feasibility studies.**

### **1. Deciding if you need to do a Feasibility Study- Assessment Stage**

**Conduct a preliminary analysis:** A little bit or early research will help you determine if you need to proceed with a complete study.

**Consider your options:** Completing a thorough feasibility study is a time-consuming and sometimes expensive process. Thus, you want to try to save your time and money for study only the most promising of your ideas. For example, you should carefully identify other possible alternatives to this business before you decide to jump full steam into a feasibility study.

**Begin to assess the demand for your idea:** Before you decide to invest the time and money into a complete feasibility study, you need to realistically assess whether or not there is a need or demand for your idea. If there is, then you can proceed to study the idea in more depth. If not, then you can move on to your next idea.

**Begin to assess the competition:** Perhaps you've determined that there is in fact a demand for your idea or services

**Assess the challenges.** Before you move on to the active stages of your feasibility study, you should consider whether or not there will be any impossible obstacles.

**Decide if you should hire expert consultants.** If your initial investigation suggests that it looks like you have an idea that may be successful, it could be helpful to hire a consultant to manage and conduct your feasibility study.

**Set a time-table.** Performing a feasibility study can be an involved process and can easily taken up a lot of time. If your initial analysis has indicated that you're sitting on a good idea and that you thus need to complete a more detailed study, you'll want to make sure that you can get the job done in a timely manner.

### **2. Performing Market Research and Analysis Stage**

) **Learn about the market.** Once you've determined that you have a potentially workable idea, you need to learn as much as you can about what the market currently for your product or service is like, if it's changing, and how you can fit into it.



You've already done your initial survey of the market, but now you need to go in deeper.

- ) **Use data from the Economic Census.** You should be able to find even more detailed information for the demand for your product or service by studying the results of the government's Economic Census, which is conducted every time.
- ) **Survey people directly.** A great way for you to learn as much as possible about what your potential consumers or audience want and need is to interview them and ask them specific questions
- ) **Design your surveys carefully.** Make sure that whatever methods you choose to learn about your audience's needs and wants, you take the time to compose detailed, specific questions for your survey
- ) **Analyze the competition's claim on the market.** It's also important that you try to determine how much of a share your top competitors have, and how long they've held on to that position. This can let you know whether you'll realistically be able to take a significant portion of the market for yourself
- ) **Identify your potential share of the market.** Once you understand how your competitors fit into the market, you should be able to estimate how you'll be able to fit in. You want the results of your feasibility study to outline, with as specific of numbers and percentages as possible, how you'll fit in and how you'll likely grow over time

#### ) **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 -1****Written Test**

**Directions:** Answer all the questions listed below.

1. What is a feasibility study of the business idea?(1 pts)

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2. *Write the* major components of a Feasibility Study in the Business. (2 pts)

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3. Which one of the following basic steps **is not** that applies to all feasibility studies is at

Assessment Stage. (2 pts)

- A. Conduct a preliminary analysis
- B. Consider your options
- C. Begin to assess the competition
- D. Begin to assess the demand for your idea:
- E. None

**Note: Satisfactory rating - 3 and 5 points**

**Unsatisfactory - below 3**

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

Score = \_\_\_\_\_

Rating: \_\_\_\_\_

**Name:** \_\_\_\_\_

**Date:** \_\_\_\_\_



## 5.1 Methods of problem identification in business.

### ) 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.
- ✓ 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.

## 5.2. Challenges and Problems of starting a Business

### 1. Developing the Vision and Business Idea

Developing a business idea is usually the first challenge faced by every entrepreneur when starting a business from scratch. Finding the right business opportunity or creatively developing an idea is certainly not an easy task.

### 2. Raising Capital for your Startup

After developing your idea, the next challenge you are going to face when starting a business from scratch is that of raising capital. As an entrepreneur, you are the only



one that knows business your idea to the core. You are the only one that knows the story of your future.

### **3. Coordinating a Business Team**

The third business challenge you will face in the course of starting a small business from scratch is assembling the right business team.

### **4. Finding the Right Business Location**

Is finding a good location a business challenge? Finding a good business location at the right price is definitely not easy. How do you get a location that has a rapidly growing population, good road network and other facilities at a good price?

### **5. Finding Good Employees**

Finding good employees is not an easy task. In addition to this giving the right job description is not also an easy task.

### **6. Finding Good Customers**

The sixth challenge you will face in the process of starting a small business from scratch is finding good customers. In the process of building a business, you will come to find out that there are good customers as well as bad customers. You must be on guard for bad customers. Good customers are really hard to find. A good customer will be loyal to your business activity and will be willing to forgive you if you make a mistake and apologize. A good customer will try to do the right thing that will benefit both himself/herself and your company mutually.

### **7. Dealing with Competition**

Competition is the next challenge you will face when starting a business. Most individuals see competition as an obstacle but seeing competition as a good challenge. Competition is a benchmark for creativity, the main engine that stimulates innovation and production of quality products at great prices. Without competition, there will be no innovation and without innovation, the world will be stagnant.

**Self-Check -5****Written Test**

**Directions:** Answer all the questions listed below.

1. List the four-step process Problem solving techniques in the business system. (2 point)

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2. List the Challenges and Problems of starting a Business. (2 point)

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3. Developing a business idea is usually the first challenge faced by every entrepreneur when starting a business from scratch. (1point)

A. True

B. False

**Note: Satisfactory rating - 3 and 5 points**

**Unsatisfactory - below 3**

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

Score = \_\_\_\_\_

Rating: \_\_\_\_\_

**Name:** \_\_\_\_\_

**Date:** \_\_\_\_\_



## Information Sheet-6

Discussing and understanding techniques in obtaining and sourcing information

### 6.1. 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 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, documents from internet etc.

### 6.2. The information can be conveniently structured in your business plan as follows:

#### 1. Executive Summary

- ♦ The most important part of the entire B/Plan
- ♦ Describes all of the key elements of a B/plan (Purpose of the business Plan, main highlights and financial requirements)
- ♦ The statements in the summary should be consistent with the information and wording in other parts of the business plan.
- ♦ The words should be chosen carefully and should be crisp, comprehensive and interesting to read.
- ♦ Polish your executive summary. Have several people read it.
- ♦ Even though your executive summary is the first part of your plan, write it last.

#### 2. Background



- ♦ Consist of a few pages of background information that is specific to your particular business.

### **3. Covers:**

- ♦ Historical development of the business
- ♦ Mission Statement
- ♦ Vision
- ♦ Goals and objectives
- ♦ Business philosophy
- ♦ Main products, markets and customers
- ♦ Location and premises
- ♦ Legal form of ownership

### **3. Main products, Markets and Customers**

- ♦ Important products or services;
- ♦ Distinguishing features or innovative characteristics of products.
- ♦ Existing and targeted markets (local, regional, national, international/export);
- ♦ Size of target markets and their growth potential;
- ♦ Present and future market share;
- ♦ Customers. (Consumers? Which demographic category? Businesses? What type of businesses?);
- ♦ Main strengths and weaknesses of products and services compared with those of competitors.

### **1. Market Analysis**

- ♦ Market characteristics (market needs, market size, market trends, market growth)
- ♦ Target market (lifestyle, sex, age, occupation, geography, etc)
- ♦ Customers (Who they are, Where are they located, Why do they buy, etc)
- ♦ Competition analysis (Relative strengths and weaknesses)
- ♦ Competitive edge
- ♦ Positioning

### **2 Marketing Plan**

- ♦ Product and product description
- ♦ Detail product description
- ♦ Research and development activities that are required before launching the product.



- ♦ Costing and pricing
- ♦ Pricing
- ♦ Place and distribution
- ♦ Promotion
- ♦ Sales Plan/forecast
- ♦ Marketing strategy

### **6.3. Business operations Management**

- ♦ Location (local market, workers, living condition, material, utilities, competition, economic growth, etc)
- ♦ Premises (license, layout, representation, environmental issues, facilities, etc)
- ♦ Product manufacturing process
- ♦ Machinery and equipment
- ♦ Technology
- ♦ Raw materials
- ♦ Quality Control System

#### **A. Management and Organization**

- ♦ Organizational core competencies
- ♦ Organizational structure
- ♦ Management team technical skills and competencies
- ♦ Values and norms of the firm
- ♦ HR Plan/Staff forecasting
- ♦ HR cost
- ♦ Training requirement

#### **B. SWOT Analysis**

- ♦ Strengths
- ♦ Weaknesses
- ♦ Opportunities
- ♦ Threats

#### **C. Financial planning**

- ♦ Investment cost
- ♦ Forecasted income statement
- ♦ Forecasted cash flow statement
- ♦ Forecasted balance sheet
- ♦ Break Even (BE) analysis



## ) Steps in Financial Projections

For items 1 and 2, use the following “Fixed Asset/Start-up Expense List.”

**1. Estimate fixed asset requirements for the first year.** Include buying land, constructing buildings, purchasing machineries, equipment, vehicles, office furniture, etc

**2. Estimate any start-up or one-time expenses.** Include any expenses needed to begin operation such as legal fees, registration, licenses, and initial marketing costs, utility connections for water, electricity and telephone, cost to install machines, expense to train employees, etc

For item 3, use the following “Unit Selling Price and Cost Analysis” sheet.

**3. Define each “unit” of your product or service and estimate the selling price and direct cost per unit.** In the appropriate places on the form, estimate Cost of Sales and calculate Gross Profit as a percentage of the selling price.

## ) Steps in Financial Projections

For items 4 through 6, use the following “Projected Income Statement”.

**4) Estimate sales by month for at least one year.** (Unit sales price times the number of units.) Consider how start-up, marketing, and seasonal factors affect sales.

**5) Estimate monthly Cost of Sales and Gross Profit based on the percentages of sales calculated in above. Use a weighted average if multiple product lines.**

**6) Estimate and itemize fixed expenses by month for at least one year. Include things** like rent, insurance, utilities, salaries, marketing, legal/accounting, etc. Determine all categories which apply to your business, but don’t include expenses here that are in “cost of goods (services) sold.”

Research items 7 through 10, and provide a short narrative.

**7) Describe the amount of inventory (if any) required to support the sales forecast.** Express in number of days sales or turnover if possible.

**8) Describe your credit sales, and collections policies. If you will make sales on credit,** estimate the number of days after the sale before the average customer pays.

**9) Describe how fast you must pay your vendors for any items you will purchase.**

**10) Also: - Estimate obligations for Income Taxes.**





#### **6.4. Businesses already in operation will need the latest Balance Sheet.**

##### **) Break Even Analysis (BEA)**

- ✓ A point at which the total sales=Total cost
- ✓ A point at which no gain or no loss
- ✓ A point at which the business start to generate profit if it enhances production or sales
- ✓ The business suffers a loss without substantial reduction in production or sales.
- ✓ In your business plan, it represents a minimum acceptable performance in order to exist in the market.

Follow these steps to calculate:

##### **) Steps to calculate break Even**

###### **✓ Breakeven point is calculated using three ways**

1. Equation technique
2. Contribution Margin (CM) technique
3. Graphic technique

For our illustration we may use the contribution margin method.

Formula:

Breakeven point= fixed cost/unit selling price- unit variable cost (unit contribution margin



## Contribution Margin (CM) technique

### Break Even Analysis (Example)

Unit sales price:	\$10	Monthly Fixed Expenses:	
		Rent	2,000
<i>less</i> Cost of Goods Sold:		Utilities	1,000
Material & Labor	3	Salary	3,000
<i>less</i> Other Variable Exp:		Other	<u>4,000</u>
Commissions	<u>1</u>		
		<b>Total Fixed Exp.</b>	<b>\$10,000</b>
<b>CM=FC/CM</b>			
Unit Contribution Margin = \$6			
(\$10 - \$3 - \$1)			

**CM % (\$6 ÷ \$10) = 60%**

$$B/E = \text{Fixed Expense} \div \text{CM \%}$$

$$B/E = \$10,000 \div .6$$

**Monthly B/E Sales = \$16,667**

### 1. Equation Technique Method

Let us assume, quantity to be sold is =Q

$$\text{Profit} = \text{Revenue} - (\text{Variable Cost (VC)} + \text{Fixed Cost (FC)})$$

At breakeven point profit=0 or no gain or loss

$$R - (VC + FC) = 0$$

$$10Q - (4Q + 10000) = 0$$

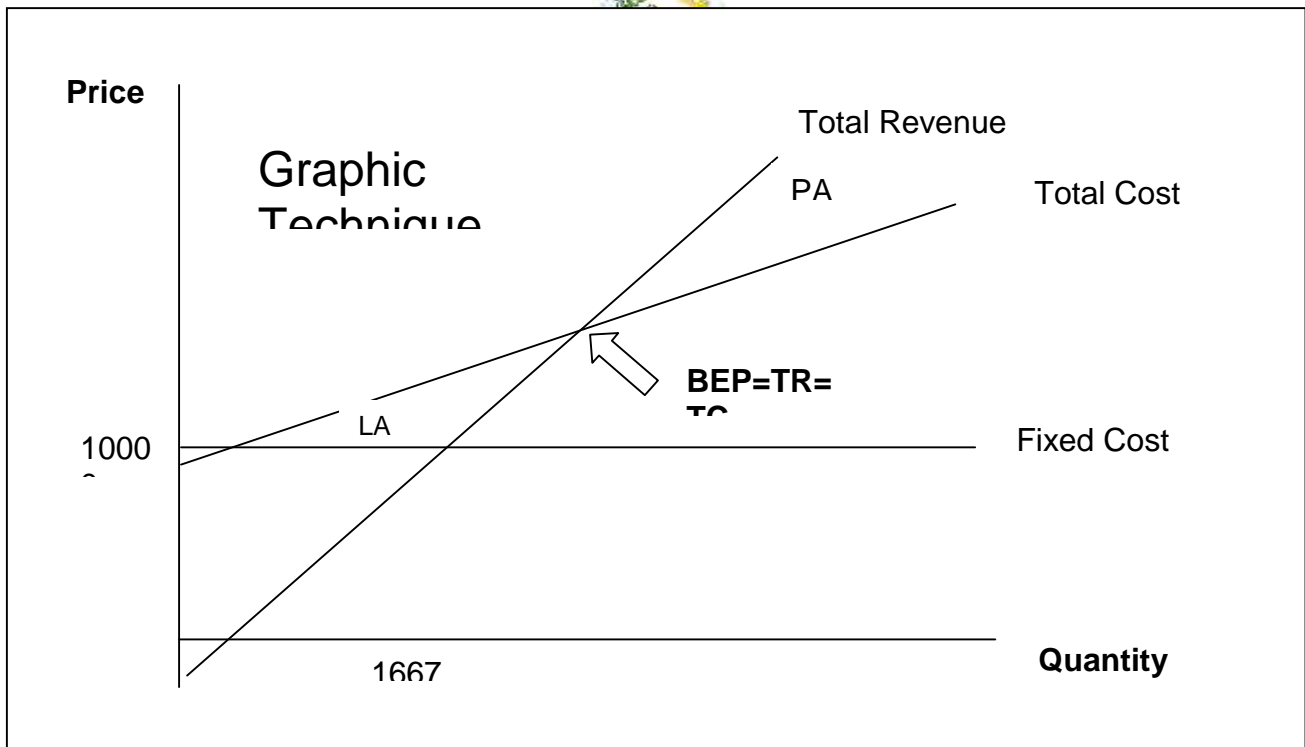
$$10Q - 4Q + 10000 = 0$$

$$6Q = 10000$$

$$Q = 10,000 / 6$$

Q=1,667Units or \$16,667

FIXED	10,000
COST	



LA: loss Area

PA: Profit Area

TR: Total Revenue

TC: Total Cost

BEP: Break Even Point

As shown in the above example, the business gets into break even when the business produces 167 units of products or sales \$16,667

This means the amount of cost and the amount of sales for the above business will be equal at \$16,667 sales or 167 units. If the amount of sales is less than \$16,667, the business is not feasible and the performance of business is not acceptable, therefor, the business will not get any support from financial institutes

**Self-Check -6****Written Test**

**Directions:** Answer all the questions listed below.

1. List Steps in Financial Projections (3 point)

A. for "Fixed Asset/Start-up Expense"

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B. For "Projected Income Statement".

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2. Write the Steps to calculate using three ways of break Even point. (2 point)

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**Note: Satisfactory rating - 3 and 5 points**

**Unsatisfactory - below 3**

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

Score = \_\_\_\_\_

Rating: \_\_\_\_\_

**Name:** \_\_\_\_\_

**Date:** \_\_\_\_\_



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### **The trainers who developed this TTLM**

<b>No</b>	<b>Name of trainer</b>	<b>work Place/Region</b>	<b>Qualification</b>	<b>Experience in TVET</b>	<b>Addresses</b>
1	Tesfahun Ayalew	BGRS /Assosa Poly TVET College	Msc in El.Comm.Eng	11 Year	<a href="mailto:Technogps44@gmail.com/">Technogps44@gmail.com/</a>
2	Ayano Assefa	Dabube /Arbaminchi Poly TVET College	Msc in pow.En	9 Year	<a href="mailto:assefahule@gmail.com">assefahule@gmail.com</a>
3	Zekairas Sisay	Harari - Poly TVET College	Bsc in Cont and pow.Eng.	6 year	<a href="mailto:gselam17@gmail.co">gselam17@gmail.co</a>
4	Gashaew Nugisue	Addise Ababa /akaki Poly TVET College	Msc in Cont.Eng	9 Year	<a href="mailto:Kena1445@gmail.com">Kena1445@gmail.com</a>
5	Mokennen G/Hawariat	Oromia / Adama Poly TVET College	Msc in control technology	27 years	<a href="mailto:Leulmoke45@gmail.com">Leulmoke45@gmail.com</a>
6	Yohannise Fetene	ANRS /Kombolcha Poly TVET College	Msc in El.Comm.En	12 Year	-----

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