ANIMAL HEALTH CARE SERVICE

NTQF Level -I

Learning Guide #66

Unit of Competence: **Develop Understanding of Entrepreneurship**

Module Title: **Developing Understanding of Entrepreneurship**

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LO3- **Elaborate how to organize an enterprise**

INSTRUCTION SHEET	Learning Guide #3

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

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

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

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

identify advantages and disadvantages of using various sources of capital to start an enterprise

Learning Activities

1.Read the specific objectives of this Learning Guide.

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

3.Accomplish the "Self-check"

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

Information Sheet	Learning Guide #3

1. Elaborate how to organize an enterprise

3.1 Importance of entrepreneurship in the society

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

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

Step 1: Personal Evaluation

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

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

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

Step 2: Analyse the Industry

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

Step 3: Draft a Business Plan

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

Step 4: Make It Legal

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

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

Step 5: Get Financed

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

Step 6: Set Up Shop

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

Step 7: Trial and Error

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

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

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

The areas of development are:

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

3.2 Meaning Small and Medium Enterprises

- **Elements constituting the meaning of small business:**
  - Independent management
  - Owner supplied capital
  - Mainly local area of operation
  - Relatively small size within an industry
- **Definitions of small businesses**

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

b. *"Individually owned and operated business"*

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

- **Small Business Statistics and Observations**

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

- **Comparatively there are:**
  - Large companies
  - Medium companies
  - small enterprises(formal sole proprietorships,Partnerships and companies)
- micro enterprises(informal)

3.3 The importance and role of small and medium enterprises

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

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

3.4 Key success Factors in setting up small and medium business

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

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

disappoint them. The other is be wise in identifying the present and future needs of your customers through the analysis of the changes in their interests.

3.5 Generating business ideas using appropriate tools and techniques

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

Step1. Develop a Basic Business Idea

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

a) Creating business idea

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

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

- **Idea Generation Methods**

Methods to generate new ideas include:

1. **Focus groups:** A group of individuals discuss and provide information in a structured format to arrive at new business ideas. Here a group that is made up of individuals is created as a structured part of the overall organizational hierarchy to obtain new ideas.
2. **Barnstorming:** Is a group method for obtaining new ides and business solutions. This method is extensively used for generating ideas for new product packing and distribution. The groups are organized for sitting together and stimulate greater creativity by exchange of mutual experiences and participating in the discussions. Different group of stakeholders will be organized and think hard to generate ideas. What makes this method different from the former is it may include informal groups that are not part of the organizational structure
3. **Check list:** The new ideas for the business are developed based on discussions on list of related issues. A specific area of discussions is listed by entrepreneur and a list of questions, suggestions and statements are developed for in-depth discussions and arrive at a business idea. For instance if a burning issue in a given time interval turns out to be environmental protection, entrepreneurs may look towards producing a new

product that is an ecofriendly. An issue that is meant for discussion can take many forms.

4. **Problem inventory analysis:** It is a method of obtaining new ideas and solutions for business by focusing on the problems. In this case the individual are used similar to focus groups for generating new business ideas. The group discuses category of products. The group is given the problems that are commonly felt by consumers, dealers, transporters and general public and based on the identified problems, product ideas that provide solutions are hallucinated.

b) Study and Process Idea

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

While evaluating the points to be considered are:

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

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

c) Selecting the best idea

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

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

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

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

- **Scanning the External Environment**

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

a. Macro – Environment

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

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

b. Micro - Environment

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

- **Sources of Environmental Scanning**

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

- **Assessing the Internal Environment**

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

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

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

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

Feasibility study should focus on the following:

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

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

Step 4: Generating Business Plan

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

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

Specifically, a business plan performs the following activities

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

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

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

Step 5: Developing Action Plans

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

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

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

Step 6: Implementation and Evaluation

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

3.6 Identifying and selecting suitable market for a business

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

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

3.6.1 Procedures for Identifying Suitable market for business

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

3.6.2 Market Information

1. What is a market?

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

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

Competition must be considered. If competitors are serving the same market, it must be decided if the market is large enough to support another business. It should also be determined how the product or service is unique and different from that of the competitors.

2. What should entrepreneurs know about potential customers?

- ✓ *Know the customers:* The market can be segmented either by dividing it into meaningful buyer groups or dividing it according to characteristics such as age, sex, marital and family status, employment, income and trends regarding any of these characteristics.
- ✓ *Know what different customer groups wants:* By segmenting the marketing into groups, it is easier for entrepreneurs to determine what products or services each group wants or needs.
- ✓ *Know where the customer buys:* Entrepreneurs need to find out where the customers in their market are presently buying, and determine what factors will cause them to switch and buy from their new businesses.
- ✓ *Know when the customer buys:* By knowing when customers buy (daily, weekly, monthly, yearly, and seasonally), entrepreneurs will be able to determine such things as possible hours of operation, when to advertise and quantity of merchandise to have on hand at specific times of the year.
- ✓ *Know how the customer buys:* Knowing how the customer pays for products and services can help the entrepreneur to determine a credit policy as well as a pricing policy for the business.

3. Where can customer information be located?

Customer information can be obtained from trade associations (publications), chambers of commerce, government agencies (including local government), newspapers and magazines, and individual research by conducting a market survey in the community.

4. What is the marketing concept?

One of the greatest needs of the owners of small businesses is to understand and develop marketing programs for their products and services. Modern marketing programs are built around the “marketing concept” and performance, which directs the owners to focus their efforts on identifying, satisfying and following up the customer’s needs, but at a cost that will bring a profit. Marketing is based on the fact that: (a) business policies and activities should be focused on satisfying customer needs, and (b) profitable sales volume is a primary goal.

When applying the marketing concept, a small business should:

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

b. Analyze their competitive advantages (marketing strategy);

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

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

5. What is market research?

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

6. What is a marketing strategy?

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

7. What is target marketing?

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

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

8. What is the marketing mix?

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

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

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

9. How can marketing performance be evaluated?

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

The key questions are:

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

10. How can the consumer acceptance of a product or service be analysed?

Consumers buy products or services for their own use, but do not buy products for the purpose of making a profit from them. Consumers buy to satisfy their own or their family's wants and needs. When they buy any product or service, they do so because of what they expect the product orservice to do for them. People are motivated to buy for two basic reasons:

- Emotional reasons: pride in personal appearance, social achievement, ambition, cleanliness, pleasure, increased leisure time.
- Rational needs: durability, economy in use, economy in purchase, handiness, efficiency in operation, dependability in use.

Psychologists have determined that consumer buying behavior is primarily directed toward satisfying certain basic needs. These very basic needs include food, shelter and clothing. An individual attempting to fulfill the most basic needs is led by rational motives. Persons with few resources need the best products and services for their money in terms of quantity, quality and dependability.

Many consumers won't admit they purchase goods and services to satisfy emotional needs. However, most psychologists believe that pride in personal appearance is an emotional buying motive. Certain motives generally seem to be more rational than others. Because people think of themselves as rational individuals, they tend to express their reasons for buying in very logical ways.

To market a product or service successfully, entrepreneurs need to be aware of what motivates consumers to buy a specific product/service.

11. What factors affect the consumer market?

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

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

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

3.6.3 Major Factors to consider in selecting a location for a business

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

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

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

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

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

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

3.6.4 General Factors in Selecting a Business Location

1. Economics

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

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

2. Population

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

3. Competition

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

🗝 Procedures for Selecting a Specific Location

The following procedures are recommended when selecting a business location:

1. Make a list of factors you feel are “necessary” for considering a business location. Also include a list of factors that would be “desirable” but are not necessary.
2. Find all the possible locations in a community that meet your list of factors.
3. Visit the locations to get an idea of their general appearance and eliminate those locations that are not suitable for your needs. Reduce the number to 2 or 3 locations that appear suitable.
4. Visit the locations again and use a checklist to compare locations against the factors you have identified. Consider the factors that are critical to the success of your business.
5. Return to the locations at various times of the day and evening to get a better understanding of the suitability of each location.
6. Conduct a traffic count at each location. Count the number of cars and pedestrians that pass each location at various times to calculate the number of potential customers.

7. Ask the opinion of experienced consultants and business people in the area to help you decide on one location.
8. Analyze all the facts and opinions you have gathered before making a final decision regarding the location of your business.

3.6.5 Basic Types of Business Ownership are Identified

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

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

1. sole proprietorship

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

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

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

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

2. Partnership

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

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

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

❖ **Types of Partnership:**

There are two types of partnership, namely

- General partnership and
- Special partnership

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

- **General partnership:**

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

- **Special partnership:**

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

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

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

3. Joint stock company (corporation)

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

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

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

4. Cooperatives

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

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

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

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

- **Disadvantage of Cooperatives**

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

3.7 Money needed to start an enterprise

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

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

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

3.7.1 Estimating the Start-Up Capital

If someone wants to start a business he/she must be aware that a certain amount of money is needed during the start-up process of a business for payments before the business begins to earn its own income. This money is called start-up capital. It serves two purposes.

3.7.2 Pre-operation payments or investment capital

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

Business starters, are generally aware that they need money for machines, tools or equipment for a shop. However, in particular young people, very often do not realize that a number of other payments have to be made before they can really start their business. For example, the cost for installation of machines and the training of workers to use them can constitute quite a high percentage of the total cost of the machines. Fees for licenses and insurance are also part of investment capital.

3.7.3 Initial operation payments or working capital

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

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

The need for working capital is also often underestimated. Business starters think they will be paid immediately.

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

In manufacturing activities, working capital has to cover a longer period that can last several months. If the working capital is underestimated, an entrepreneur may have a flourishing business, but may run out of money to pay salaries, buy additional merchandise for sale, or is not able to make bank repayments.

It is recommended that a certain percentage is included in the investment capital for unforeseen items. Working capital should also include additional funds for unforeseen expenses. The distinction between these two categories of payments depends on the moment when the payments are made: either before the business starts to operate (investment capital) or after it has started (working capital). The start-up capital for a new business is the sum of the expenditures for the investment items and the working capital. The future entrepreneur needs to have this amount of money by: using his/her own savings, finding partners and negotiating loans with banks. As a general rule, 30% of the start-up capital should be from the entrepreneur's own resources.

3.8 Obtaining money to start an enterprises

1. Individual investor as sources of funds: This includes sources as personal savings, funds from friends, relatives & local investors and the sale of capital stock as major sources of funds.

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

- Secured Loans: Secured loans are those that are backed by something of value, known as collateral, which may be seized by the lender should the borrower fail to repay the loan. The three main types of collateral are accounts receivable, inventories, and other property. When a business loan is secured with accounts receivable, its customers' outstanding balances on open book accounts are used as collateral. A less attractive alternative, known as factoring, for most business is to sell accounts receivable to a finance company instead of using them for collateral. Another form called as chattel mortgage, is an agreement where the movable property purchased through the loan belongs to the borrower, although the lender has a legal right to the property if payments are not made as specified in the loan agreement.
- Unsecured Loans: An unsecured loan is one that requires no collateral. Instead the lender relies on the general credit record and the earning power of the borrower. To increase their returns on such loans and to obtain some protection in case of default, most lenders insist that the borrower maintain some minimum amount of the money in the bank, known as compensating balance, while the loan is outstanding. Although the borrower pays interest on full amount of the loan, a substantial portion of it remains on deposit in the bank. Another important type of unsecured loan that eliminates the negotiate with the bank each time the business needs to borrow, is called the line of credit. However the line of credit does not guarantee that loan will be available. If a firm commitment is required, a revolving line of credit is agreed upon which guarantees that the bank will honor the line of credit up to the stated amount, for an extra fee.

6. Commercial paper: A short-term financing option that has become increasingly popular is to borrow from other business and investors. The company borrowing money issues commercial paper, which represents a promise to pay back a stated amount of money within the stated number of days (legally, 1 to 270 days). The business or investor generally buys commercial paper at a price lower than the face value; then at the end of the period, the buyer receives the face value, the difference of which is the equivalent of the interest on the loan.

7. Long-term financing: One of the basic principles of finance is that long-lived assets are purchased with long terms funds. To finance long term projects such as major construction, acquisition of other companies, research & development, most companies rely on a combination of internal & external funding resources. The four main sources of external funding are loans, leases, bonds & equity.

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

Types of financing	Advantages	Disadvantages
➢ Equity financing		
1. *Using personal finance*	1. All of the profit kept. 2. Reduces amount of debt. 3. Risk of loss provides motivation to succeed. 4. Shows good faith to any potential lenders.	1. Chance of loss. 2. May force personal sacrifices. 3. Loss of return from use of savings in other investments.
2. *Involving friends and family*	1. Brings in more cash. 2. May be possible to borrow more. 3. Financial risks shared.	1. Part of profits given up. 2. Part of the ownership given up.
3. *Forming a partnership*	. Easy source of cash. 2. Less pressure and restrictions. 3. Informal arrangements.	1. Risk of destroying personal relations 2. May encourage unwanted
4. *Forming a limited company*	Larger amount of cash raised.	. Part of profits given up. 2. Share of control and

	2. Financial risks shared. 3. Legal liability reduced. 4. Tax savings.	ownership given up.
5. *Forming a cooperative*	1. Poor people are able to combine financial resources. 2. Financial risks shared.	1. Profits shared. 2. Financial decision-making Shared
6. *Working with financial institutions*	1. Set up to help small businesses. 2. Provides loans.	1. Favors expanding Businesses
➢ **Debt Financing**		
All forms of borrowing	1. Relatively easy to obtain. 2. Control and ownership of the business maintained. 3. Can be repaid at more advantageous time. 4. May save money. 5. Costs may be tax deductible. 6. Inflation allows repayment with cheaper money.	1. High interest costs. 2. Risk that future profits will not cover repayment. 3. Easy to abuse and overuse. 4. Financial and confidential information must be 5. Lender may impose limitations or restrictions on borrower.

Self-Check	Written Test

Name: ___________________________ Date: ________________

Directions: Answer all the questions listed below.

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

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

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