ENTREPRENEURSHIP, LAW AND POLICY

WORKBOOK

FOR PART II
OF BOOK BY

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Building Future Excellence: A Primer for Aspiring Entrepreneurs (pages 155-274 of the text). ©

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WORK BOOK AND SYLLABUS/READING ASSIGNMENTS ©

Part II: Building Future Excellence: A Primer for Aspiring Entrepreneurs

Introduction

Chapter 10: Developing Your Ideas
Chapter 11: Creating the Legal Framework for Your Business
Chapter 12: Things You Should Know about Intellectual Property
Chapter 13: Building Your Business Plan
Chapter 14: Raising Capital for Your Business
Chapter 15: Tax Matters for Business Owners
Chapter 16: Estate Planning: Securing Your Future and Your Legacy
Conclusion

This work book/syllabus serves as both **a reading assignment** and **a resource manual**. Accordingly, this syllabus serves as a substantive guide for the course which you can use along with the book I wrote.

In utilizing this text, we shall *primarily* focus on Part II of Professor Rogers' text titled: **Building Future Excellence: A Primer for Aspiring Entrepreneurs** (pages 155-274 of the text.

Part II of the book is part of a book titled **The African American Entrepreneur Then and Now** by W. Sherman Rogers (Praeger/ABC-CLIO 2010). One of the goals underlying the book is to inspire persons to test their entrepreneurial mettle. The book attempts to do this by showing, for

example, how even slaves were able to accumulate enough money from their part-time entrepreneurial endeavors to purchase their freedom (as well as the freedom of their families).

The most important portions of this workbook *are likely* the ones that deal with:

1. **the psychology of entrepreneurship** (p.3),

2. common **mistakes that people make in writing business plans** (p. 12),

3. the portion which corresponds to an explanation of **the reasons for** and **the basics of how to write a business** plan (p. 23),

4. the piece on **financial statements**—the Income Statement and the Balance Sheet (p. 17), Operating Margin of Profit (p.19), Cost as a Percentage of Sales (p. 19), Gross Margin(p. 19)—and

5. how **to price your product or service** (p.43)

AVOIDING PROCRASTINATION—THE PSYCHOLOGY OF ENTREPRENEURSHIP

DREAM-BELIEVE-PURSUE

To be a successful entrepreneur, you must have the ability to recognize an opportunity and the **courage** to seize it. **An opportunity is a favorable set of circumstances that creates a need for a new product, service or business.** You must be more than a dreamer, you must be a doer. Therefore, you must actively pursue your dreams regardless of whether you have all of the economic resources in place.

You must **avoid the paralysis of over-analysis**. Instead of having yet another committee meeting, perhaps you should attempt to sell at least one unit of your product or service. It is for this reason that my book requires that you engage in both Concept and Usability Testing of your service or product as part of doing the Feasibility Analysis for your business idea. This will also help you to make a realistic projection of the likely revenues your business will generate.

One thing I recommend to people is to do something each day—no matter how small—in pursuit of your objective.

If it's a term paper, you should write at least one sentence per day. What you will find is that after you write that one sentence, you'll likely write another.

Similarly, if your objective is to work out more, then you need to do at least ten seconds of your exercise routine each day. If you commit yourself to ten seconds each day, it is likely that you will do more. The key is to overcome the barrier which prevents you from getting started. **Think in terms of doing one unit of activity a day and not the three hundred units that you probably need to do.**

It is in the Conclusion of the book (titled **TIME FOR ACTION**), that I attempt to drive home the point that you must take action each day in pursuit of your goals and objectives if you are to have any realistic chance of succeeding. Unfortunately, however, it is the belief of many people that everything needs to be perfect before they get started. This often undermines their ability to either start or finish a project. See generally the book at 273.

As I state in the book, "**You can dream all you want about that house you want to build but, at some point, you have to get a design down on paper and start hammering nails."** p. 156 and 274.

Additionally, I note that it is imperative that you "**take concrete steps toward achieving your objective. This may initially mean taking baby steps. But even baby steps represent a movement forward. Avoid the stranglehold of analysis paralysis and begin seeking customers and clients today." p. 273.**

SELECTED BOOK REFERENCES THAT DIRECTLY OR INDIRECTLY TREAT THE TOPIC OF PROCRASTINATION, A CHARACTERISTIC YOU WON'T FIND IN SUCCESSFUL ENTREPRENEURS

The Introduction

1. The success of the idea or innovation hinges on the entrepreneur's ability to recognize opportunity and **the courage to seize it**. See at first line on page xvi.

2. The very definition of entrepreneurship refers to "the process by which an individual **pursues opportunities**...without regard to resources he or she may currently control...." Page xvi of the Introduction.

3. Entrepreneurs **"establish their ventures regardless of whether they currently have the financing they need."** Page xvi of the Introduction.

Introduction to Part II

4. "**You can dream all you want about that house you want to build but, at some point, you have to get a design down on paper and start hammering nails".** p. 156.

The Conclusion

I titled the conclusion **TIME FOR ACTION. Here it is.**

"The primary goal in writing this book has been to present both historical and practical information to inspire and assist all entrepreneurs and prospective entrepreneurs in launching, growing, and, ultimately, transferring ownership in a business venture to future generations.

Part II of this book focuses on the practical side. It furnishes important information that readers can use to improve their chances of achieving entrepreneurial success. But **you must do more than merely read this book. Now is the time for you to begin your quest for business success.** Drive and determination, not perfect abilities, will largely determine your success. **Do not allow fear of failure or the belief that you need additional credentials to hinder pursuit of your entrepreneurial dreams.**

It is not enough to have an excellent business plan; **you must take concrete steps toward achieving your objective. This may initially mean taking baby steps.**

But even baby steps represent a movement forward. Avoid the stranglehold of analysis paralysis and begin seeking customers and clients today.

There will never be a perfect time to begin any new venture. The need for perfection often undermines the ability of individuals to either start or finish a project. Remember that even a lack of adequate resources is no excuse for doing nothing. An entrepreneurial mindset is a way of thinking that relies on a process of creativity, innovation, opportunity discovery, and risk evaluation to add value to situations, projects, activities, and organizations. Entrepreneurs, by definition, pursue opportunities even though they don't have all the funds they need and lack a full support network.

As we stated at the outset of Part II, **you can dream all you want about the house you want to build but, at some point, you must get a design down on paper and start hammering nails. What better time to get started than now!"**

ABOUT THE COURSE ENTREPRENEURSHIP, LAW AND POLICY

There are six writing/drafting assignments for which you shall be responsible during the course of the semester. However, I shall determine your grade primarily by the quality of your Business Plan.

Pages 12-15 of this Workbook contains a piece I wrote titled: **COMMON MISTAKES IN BUSINESS PLANS WHICH CAN MAKE THEM PRACTICALY USELESS. Additionally, you may wish to take a quick look at pages 25-32 of this Workbook to get an overall idea of subjects that you must typically discuss in any business plan.**

You will receive various handout materials from newspaper articles and other sources during the semester which will serve as case studies for discussion. These articles will highlight the circumstances which caused various entrepreneurs to start their businesses and why their businesses have been successful or struggled. Some of your handout material will be in the form of excerpts from sources such as the first edition of the book by Bruce R. Barringer and R. Duane Ireland titled *Entrepreneurship* (Pearson/Prentice Hall 2006). Additionally, successful entrepreneurs will speak to the class as to the circumstances which caused them to launch their firms and provide tips on how to successfully manage and grow a business enterprise (whether it be a profit or nonprofit organization).

People become entrepreneurs to be their own boss, to pursue their own ideas, and to realize financial rewards. Usually, a triggering event prompts an individual to become an entrepreneur. Some of the triggering events which cause persons to start a business include loss of a job, receipt of an inheritance which provides the money to start a business, and lifestyle issues, e.g., decision to start a business after a young child begins school. *See* Part II of Book at 155.

These prospective entrepreneurs usually seek to take advantage of some sort of money making **opportunity** which has come to their attention. But exactly what is the definition of an opportunity? **An opportunity is a favorable set of circumstances that creates a need for a new product, service or business.** An opportunity is an idea that has the qualities of being attractive, durable, and timely and is anchored in **a product or service that creates value for its buyers or end users.**

The most common definition of entrepreneurship states that **entrepreneurship is the process by which individuals pursue opportunities without regard to resources currently controlled**. One university's entrepreneurship institute defines entrepreneurship as **the process of opportunity discovery, risk evaluation and adding value to situations, projects, activities and organizations**. See The Howard University ELI (Entrepreneurship, Leadership, and Innovation) Institute definition of Entrepreneurship.

A start-up firm may be either an **entrepreneurial firm**, a **salary substitute firms** or a **lifestyle firm** (see book at pages xvi-xvii and 155-156). **Entrepreneurial firms** are those that bring **new products or services to market** by creating and seizing opportunities regardless of the resources they currently control. **Innovation** is the process of creating something new and is central to the entrepreneurial process. Innovation requires implementation, i.e., the successful introduction of new outcomes.

In contrast, **salary substitute firms and lifestyle firms** are not particularly innovative. Examples of salary substitute firms are dry cleaners, restaurants, hairstyling salons, accounting firms. Examples of lifestyle firms include ski instructors, golf pros, and tour guides.

The purpose of the course, **Entrepreneurship, Law and Policy**, is to teach law students (and, perhaps, students from other disciplines) how to practically apply the wide and varied body of legal principles involved in establishing and expanding a business venture. The course will primarily explore the role of law in the entrepreneurial process in the following legal areas: corporate law, agency law, business organizations' law**,** intellectual property law, small business administration law, tax law, franchise law and the law which governs efforts to raise capital. The course will also discuss related topics such as how to write a business plan and how to finance and market the emerging business. *See generally* Part II of Book at 165-274.

The Entrepreneurship course requires that students enrolled in the class submit the following **assignments:**

(1)a **Concept Statement** for the business (i.e., description of the product or service, the target market, the benefits of the product or service, and how the product will be sold and distributed)

(Due_____) ;

(2) a **Feasibility Analysis** (e.g., organizational feasibility, financial feasibility, and an industry and competitor analysis; perhaps the most important task you will perform here is actually attempting to sell one unit of your product or service in the process doing **Concept Testing** and **Usability Testing** for Your Product or Service)

(Due _____);

(3) a **Business Model** for the enterprise (which is an extension of the Feasibility Analysis that shows how the business intends to compete—i.e., its core strategy (how the firm will compete), strategic resources (how the firm acquires and uses it resources), partnership networks (how the firm structures its relationship with suppliers, partners, and other key relationships, and customer interface), target market of customers, marketing and sales strategies, and pricing strategies;

(Due_____)

(4) **Articles of Organization** for the business (e.g., articles of incorporation for a corporation; articles of organization for a GP, LP, LLLP, LLP, LLC, PC, Corporation, etc.);

(Due_____)

(5) an **Agreement Among Owners** of the business (which contains such matters as restrictions on transfers of equity shares, buy-sell agreements, the percentage of ownership each owner will have in the business, the nature of the owner's initial investment in the business—cash, property, services rendered—those who will manage and make policy decisions for the business, and a host of other matters);

(Due_____)

and

(6) a **Business Plan** (Due_____) (i.e., a written narrative that describes what the new business intends to accomplish and how it intends to achieve its goals.) ***See page 23 of this Workbook.***

The Executive Summary of the Business Plan. The prospective business owner **writes the executive summary last** even though it is the first section of the plan. It summarizes the essence of the business and the key decisions made by the entrepreneurial team. It serves as both an abbreviated business plan and an occasion to sell the reader on the business opportunity. The executive summary should, ideally, contain the following categories of information (unless a particular category is not relevant to the firm in question for one reason of another). The categories/subjects that the executive summary should contain are as follows:

Opportunity Statement:

- What is the nature of the opportunity or problem?
- Why is the opportunity now?

The Business Concept and Product or Service:

- How would you describe the business to a potential investor, team member, or customer if you had only a short elevator ride together?
- What is unique about the venture?
- Develop a brief concept statement for the product or service that can be shown to potential customers
- What are some of the unique features of the product or service? What existing problem(s) will you solve with your product or service? What are the primary benefits to customers? How does your solution improve or replace current offerings of the product or service?

Description of the Target Market:

- Briefly define your relevant market.
- What is the current size and expected growth of your target market?
- What segments of the market will you be targeting?
- What proof can you offer that your target customers will value your product or service?
- What do you need to do very well in order to win this market? What will your pricing strategy be relative to the rest of the industry? What is the level of potential sales of your product or service? How will these sales happen? Who will your first customer(s) be? What level of profits do you expect:

Competitive Advantage of the new firm:

- What special knowledge or technology do you possess and how will you protect it?
- What are the barriers to entry? Who will the competitors be?
- How will your service or product compare to those of your competitors in terms of usefulness, cost, styling, ergonomics, time-to-market, strategic alliances, technological innovations, compatibility with related products, etc.?

The Economics of the Business:

- What are the firm's margins and volumes?
- Is the cost structure more fixed or variable?

Technology and Operational Issues

- What technology will you employ?
- Where are you in terms of Research and Development on the products or services?
- Will production be handled by you or outsourced?
- What is unique about your approach to production or operations?

The Team which shall manage the new venture:

- Who are you and why can you do this?
- Briefly summarize your team's qualifications.

Financial Highlights of the firm **(**if any**).**

Financial Needs and How the Team Proposes to Raise the Money for the firm:

- How much money are you requesting?
- From what sources are you looking for money and in exchange for what (e.g., how much equity)?

Accordingly, the executive summary should provide information concerning the nature of the business opportunity which the new firm seeks to exploit, the business concept, the prospective owner's target market, the firm's business model for achieving success, and how the business will make money. It should also give the reader an overview of the highlights from the business plan for the new venture. *See* Part II of the Book at 204 (Building Your Business Plan).

The course will require that students choose a particular business they wish to establish, write a business plan for the proposed venture, determine how they will market the business, determine what must be done to make the business financially viable, draft articles of organization for the proposed business, determine how they will finance the particular business, obtain the necessary forms to obtain financing, evaluate whether they will need to obtain trademarks, copyrights or patents for the business, and determine who will be responsible for the preparation of such items as taxes, income statements and balance sheets.

The students may choose from several types of businesses they wish to start including a law firm, a title company, other personal service businesses (e.g., a cleaning business), a franchised business (Subway, Dunkin Donut, etc.), a retail outlet, or other types of businesses. Relevant guest speakers will discuss how they established, expanded and maintained their particular business enterprise throughout the years.

"An entrepreneur recognizes an opportunity to make a profit, raises the money to open a business, and eventually hires managers to run the business." See Steve Slavin, **ECONOMICS: A SELF TEACHING GUIDE** 35 (John Wiley & Sons, Inc., 2d Ed. 1999). Similarly, social entrepreneurs seek to transform opportunity into a community wide social benefit. Entrepreneurial ability is considered by economists to be one of the four scarce means of production toward the satisfaction of human wants (the others being land, labor and capital). Id. at 33-35. Why is this the case? The answer is simple. "Not everyone can set up a successful business. Proof of this lies in the fact that three out of every five new businesses in the United States fail within the first two years." Slavin at 35. Attorneys, in particular, should be exposed to the essential considerations necessary in establishing a viable business. Such exposure will facilitate attorneys (and prospective attorneys) in either establishing their own business enterprises or in assisting others in correctly establishing such ventures.

The grade for the course will be determined by the *quality of the student's business plan and other documents which the course requires the student to draft* as part of the process of starting a viable business. *The Workbook sets forth the documents which the student must draft and the deadline for delivering each document to the professor*.

COMMON MISTAKES IN BUSINESS PLANS WHICH CAN MAKE THEM PRACTICALY USELESS

Many entrepreneurs start successful businesses without a written business plan. And it is likely that some of you may have been able to launch a successful firm without first preparing a written business plan. However, I have yet to meet any successful entrepreneurs who did not state that their businesses experienced a lot of

unnecessary difficulties and/or almost failed because of the lack of an initial, written business plan. Business plans are meant to be tweaked and constantly changed as necessary. Accordingly, a business plan is not a static document. And yours will be no different.

"A business plan is where imagination meets discipline." And "[i]t is the discipline of the plan that will help you see critical flaws in your idea, in how you plan to price, in your cost requirements, in your marketing methods and so forth. *See* W. Sherman Rogers, *The African American Entrepreneur Then and* Now, Part II, titled ***Building Future Excellence: A Primer for Aspiring Entrepreneurs***, at 199.

"The best [business] plans are almost always the ones where you gather the best information, do the most library and secondary research, do the most field research (talk to prospective competitors, customers and suppliers), and dig as deeply as possible for information....Most of the answers you seek are hard to find, do not exist in one place, and must be pieced together. The research for a great business plan is a 'scavenger hunt.' *See* Syracuse Nuts and Bolts of Business Plans, pages 200-201 of Part II of the book titled *Building Future Excellence: A Primer for Aspiring Entrepreneurs*.

As you might imagine, not all of the business plans I receive for review are in the stellar regions. Some provide no meaningful guide for the prospective entrepreneur to ever launch the business—whether the launch date is next month or twenty years from now. Why is this the case for a few of the business plans submitted? Here's my assessment.

Typically, these business plans:

(1) were essentially extended concept statements which *failed to provide* any *specific*, *meaningful*, or *relevant* information for the prospective entrepreneur to realistically make the concept become a reality;

(2) were business plans which indicated that an insufficient amount of field work had been done (e.g., no idea of how much it would cost to rent space in the very

area of town in which the business was to perform its business operations in a leased building);

(3) were business plans which provided no breakout of projected monthly expenses or projected income ***nor set forth any assumptions***—whether realistic or otherwise—from which such projections could have been made (see pages 223-224 of book);

(4) were business plans which ***failed to illustrate what a day in the life*** of actually producing the product or delivering the service would be like (i.e, the plan provided no operating model or operating cycle, see page 213-214 of the book);

(5) were business plans which **indicated that an insufficient amount of research had been done to prepare an *overall schedule* of events necessary to launch the business**—which the book makes clear is "an essential part of a business plan" (*See* page 222 of book, first sentence). In this regard, it is irrelevant that it may take you 10-15 years to launch the business based on conservative assumptions. The point is that you must obtain enough information to make the necessary assumptions. And ***the only way you can make these assumptions is by talking to prospective competitors, customers and suppliers, and digging as deeply as possible for information*.**

In any case, at a minimum, if prospective entrepreneurs can address these issues in their business plans, there is a greater chance that their business plans will provide an accurate roadmap for business success.

FOR PURPOSES OF THIS CLASS, IT IS NOT IMPORTANT THAT YOU DETERMINE THAT YOUR BUSINESS CONCEPT IS NOT CURRENTLY FEASIBLE

If you have learned even one new thing--no matter how small--about the realities of successfully turning your business concept into a profitable reality, then you have already obtained one of the primary benefits for enrolling in the course.

Additionally, if you determine it is not *presently* feasible for you to launch your business, simply tell me in your business plan *what it would take for you to be able to get the business up and running* and to become profitable.

Similarly, if you do not believe that your business concept is feasible after doing your primary and secondary research, you should come up with some ideas for ways you could still make money in the industry. For example, perhaps your business could become a contractor for existing firms in the industry.

Ultimately, it is not important to me whether your business concept is feasible. The whole purpose of the class is for you to tell me why your business concept is or is not feasible and **what you would need to happen in order for your business concept to become feasible.**

For those of you who cannot find hard figures for certain expenses, you need to talk to someone who has a good idea of the costs for that particular item and **"make up" a figure** based on an approximate dollar amount for that expense for purposes of this class. Sometimes, you may need to do this for purposes of turning in an assignment for the class. Indeed, you may need to engage in this type of extrapolation for your Business Plan too if you cannot find any hard figures by the time the deadline arrives when you must turn in your Business Plan.

DREAM-BELIEVE-PURSUE

AVOIDING PROCRASTINATION

As I state in the Conclusion to my book, **"The Need for perfection often undermines the ability of individuals to either start or finish a project."** ***See Book at 273***. Perhaps, that is the greatest take away lesson from the entire course--that people should **Just Do It.**

It took one of our guest speakers approximately 6 months to roll out a brand new product/invention that is now for sale in the marketplace. This is the best example of the entrepreneurial spirit that I could have ever hoped to present to you. Whether these young entrepreneurs are wildly successful is totally irrelevant to me. What is important to me is that they have positioned themselves to make incredible things happen.

They saw opportunity where most would have seen obstacles. Indeed, my research indicates that most people (probably 99% of the population) would still be calling meetings to discuss the idea. I don't believe that the one percent are smarter than the ninety-nine percent. Not by a long shot. However, I do believe that they **"DREAM-BELIEVE-PURSUE. These [three words] are at the heart of the entrepreneurial mindset."** ***See book at 231 (The Concluding Lines of Chapter 13--Building Your Business Plan).***

Your business plan is **NOT** an "article" or a "thesis paper" that must meet a "publishable quality" standard. This is not some "nerdy" exercise for "scholarly" people who are writing on some complicated legal issue. Indeed, as strange as it might sound, you are actually writing your business plan for yourself, not me. The fact is that **most of you turned in enough information for at least a "rudimentary" business plan well over a month ago.** Indeed, all you needed to do at that point was to fill in the rest of the data that the syllabus, the book, and the business plan format *suggested* that you address.

The late great John Coltrane (and others) said that people should **Acknowledge, Resolve and Pursue.** In the context of this Workbook, that means that you should clearly understand (i.e., acknowledge) that you *must* turn in whatever you have done by the deadline (i.e., you must let it go) and move on to something else for all of the reasons I earlier stated in this correspondence.

IMPORTANCE OF THE FEASIBILITY ANALYSIS AND BUSINESS MODEL EXERCISES

I have come to believe that students learn very little about becoming successful entrepreneurs by listening to rich people relate their rags to riches stories. Preparing a good Feasibility Analysis—**utilizing concept testing and usability testing**—will let you know whether your business has a good chance of getting off the ground.

The Business Model is a continuation of the Feasibility Analysis. I believe that students learn more about becoming successful entrepreneurs by exploring case studies--especially current ones that are unfolding--of how once successful entrepreneurs and their companies end up going out of business (or going from being dominant players in their industries to minor players or worse) because they failed to keep their business models current in light of increased competition, customer preferences, and changes in technology.

In other words, what got you there won't necessarily keep you there. That's why Business Models constantly need to be reviewed and tweaked. It's also the reason you should never look at your overall Business Plan as some sort of completed research paper. Your Business Plan constantly changes because circumstances will often force you take different approaches to create and/or to maintain a successful business.

PREPARING YOUR INCOME STATEMENT AND BALANCE SHEET FOR YOUR BUSINESS PLAN

At the outset, I want to let each of you know that I read each student's Business Plan line by line, page by page. As I read, I take notes on a legal pad of my observations and impressions.

A.THE INCOME STATEMENT

You will find below and attached to this email samples of a simple income statement **in Word format** (i.e., a non-spread sheet document) which you can cut, paste, and manipulate as you wish.

With respect to your **Income Statement,** it is sufficient that you make a projection of income and expenses--**just as if you were doing your own monthly budget.** Not every student in past classes has submitted financial statements (i.e., a pro forma income statement and balance sheet). You won't fail the course if you don't include any financial statements. I will just make a notation in my notes that you did not provide any financial projections.

I encourage you to at least come up with an income statement no matter how crude it looks as it is no more than what you would do if you actually sat down and typed up a written monthly budget for yourself based on your likely income less expenses for a month.

The figures you extrapolate are the same figures you would have given to an accountant to create a professionally rendered **Pro Forma Income Statement**. Therefore, it's the figures you project, NOT the format (i.e., not the way it looks) that are really important here. And only you--not your accountant--can project your firm's likely revenues (i.e., Income) and expenses. The **Concept and Usability Testing of your service or product** during **the Feasibility Analysis** provides you with some basis for making a projection of anticipated revenues.

In any case, please scroll down to see some non-spread sheet forms that you can manipulate **that are in Word format** with respect to your Income Statement and your Balance Sheet. I have also included them in the electronic version of this Workbook.

B. THE BALANCE SHEET

As to your **Balance Sheet,** just make sure that the Asset side equals the combination of Liabilities and Equity on the other side. If your firm's projected Assets are higher than your firm's Liabilities, it indicates that your business has Net Worth (i.e., positive Equity). If your firm's projected Liabilities exceed its projected Assets, the business is insolvent in the bankruptcy sense. ***See book at 164-165.***

SAMPLE INCOME STATEMENT

Income Statement

For the Month Ended March 31, 2005

Revenues			
Rental Revenue			$65,000
Operating Expenses			
Advertising	$5,310		
Wages	$30,500		
Utilities	$1,080		
Depreciation	$800		
Repairs	$4,260		
Insurance	$600		
Interest	$100		
Supplies	$3,900		
Total Operating Expenses:		$46,550	
Net Income:			$18,450

You may wish to determine, among other things, the projected **OPERATING MARGIN OF PROFIT** for your business. This will show you the percentage of each sales dollar retained by your company after paying fixed and administrative expenses. **The formula** you use for this is to divide operating income by net sales.

You may also wish to determine your firm's **GROSS MARGIN** (the difference between the cost to produce a good or service and the price for which it sells). The formula you use is as follows—divide the direct cost to produce a good or service (e.g., $341, 885) by the total amount of sales (e.g., $1,544,519) =**Cost as a Percentage of Sales** of 22.135375% . Thereafter, you can determine **gross margin** by subtracting the earlier figure (22.135375%) from 100% which equals a gross margin of 77.86%). *See* Part II of Book at 162, 166.

Example Company
Balance Sheet
December 31, 2011

ASSETS		**LIABILITIES**	
Current Assets		**Current Liabilities**	
Cash	$ 2,100	**Notes Payable**	$ 5,000
Petty Cash	100	**Accounts Payable**	35,900
Temporary Investments	10,000	**Wages Payable**	8,500
Accounts Receivable - net	40,500	**Interest Payable**	2,900
Inventory	31,000	**Taxes Payable**	6,100
Supplies	3,800	**Warranty Liability**	1,100
Prepaid Insurance	1,500	**Unearned Revenues**	1,500
Total Current Assets	89,000	Total Current Liabilities	61,000
Investments	36,000	**Long-term Liabilities**	
		Notes Payable	20,000
Property, Plant & Equipment		**Bonds Payable**	400,000
Land	5,500	Total Long-term Liabilities	420,000
Land Improvements	6,500		
Buildings	180,000		
Equipment	201,000	**Total Liabilities**	481,000
Less: **Accum Depreciation**	(56,000)		
Prop, Plant & Equip – net	337,000		
Intangible Assets		**STOCKHOLDERS' EQUITY**	
Goodwill	105,000	**Common Stock**	110,000
Trade Names	200,000	**Retained Earnings**	229,000
Total Intangible Assets	305,000	Less: **Treasury Stock**	(50,000)
		Total Stockholders' Equity	289,000
Other Assets	3,000		
Total Assets	$770,000	**Total Liab. & Stockholders' Equity**	$770,000

The reading assignments for the course are as follows:

DATES OF COVERAGE:_____

THE DECISION TO BECOME AN ENTREPRENEUR

PLEASE GO TO NEXT PAGE TO

DATES OF COVERAGE:_____

DEVELOPING YOUR IDEAS…….157-167

CREATING THE LEGAL FRAMEWORK FOR YOUR BUSINESS……169-186

DATES OF COVERAGE:_____

THE BUSINESS PLAN

Introduction

For most ventures, **the business plan is a dual-purpose document** used both inside and outside the firm. Inside the firm, it helps the company develop a road map to follow in executing its strategies. Outside the firm, it acquaints potential investors and other stakeholders with the business, with the business opportunity the firm is pursuing, and describes how the business will pursue that opportunity.

Writing a business plan can be as valuable as the plan itself. The work required to write a business plan forces the management team to think through every aspect of the business and to establish the most important priorities.

A summary business plan **is 10 to 15 pages** and works best for companies in the early stages of development. These companies don't have the information needed for a full business plan but may put together a summary business plan to see if potential investors are interested in their ideas.

A full business plan, typically 25 to 35 pages, spells out a company's operations and plans in much more detail than a summary business plan and is the usual format for a business plan prepared for an investor.

An operational business plan usually prepared for an internal audience. It is **40 to 100 pages** and **provides a blueprint for a company's operations**.

As earlier mentioned, I discuss some of the common mistakes that students (and others) make in drafting Business Plans. You can find this brief discussion on pages 12-15 of this Workbook.

These "common mistakes" tend to be omissions to perform basic things required to start a successful business. Examples include the failure to get out "in the field" and actually talk to competitors, potential customers, suppliers, etc. As you probably suspected, these are things that a business owner will eventually need to do at some point if the business is to have any chance of future success. Moreover, getting out in the field helps the prospective business owner to become familiar with the network of individuals who are actually engaged in the business.

There are a growing percentage of persons who are starting their own law practices. In some instances, persons who have no job will start a business or pursue "contracting opportunities" out of necessity.

There are also a growing number of individuals who are starting businesses totally unrelated to law. And many who are retiring from long-held jobs are increasingly becoming entrepreneurs in a variety of areas that they find interesting and stimulating.

A business plan is also an objective and fact-based document. It is not written in first person, so be sure to eliminate all use of 'I', 'We', 'Our', and 'Us'. Use your company name to refer to the business.

A logical approach is to break the overall plan down into **THREE STAGES**.

- **First,** attack four key sections: the Industry, the Company/Concept/Products, the

Market, and Economics (think of this as **stage one**); These sections will lay out the nature of the opportunity and how you are going to capitalize on it;

- **Then**, go after the Marketing, Design and Development, Operations, and Management Team sections (**stage two**); These sections really get at the nitty-gritty of how you will make things operational;
- **Finally**, address the Risks and Assumptions, Timetable, Financials and the Offering or Deal (**stage three**). Here you focus on implementation, what can go wrong, how the business will perform, and how much money is needed.

Accordingly, let's begin our discussion of how to correctly build your business plan.

STAGE I

THE NATURE OF THE OPPORTUNITY AND HOW YOU ARE GOING TO CAPITALIZE ON IT

The Industry, the Company/Concept/Products, the Market, and Economics

See End of Workbook at 35-42 for
Discussion of:

Porter's 5 Forces,
SWOT Analysis and
PEST Analysis

in Analyzing
the Industry in Which You are Entering

The Company, Concept, and Product(s) or Services…….207-208

a. Describe the Product or Service You Will Be Selling (What it is and Isn't)

b. Describe any Possible Drawbacks to Getting The Business Started and Maintaining Sales

c. How Will You Initially Enter the Market?

d. Share Your Vision for Where the Business Will be in Five Years

Market Research and Analysis (aka "The Market")……208-211

a. The definition of the relevant market and customer overview.

b. Market size and trends: Estimated potential market size in dollars and units and the assumptions on which they are made.

c. Buyer behavior portion of the market analysis: Who buys the service or product, when, why, where, what and how.

d. Market segmentation and targeting: How the company's defined market can be broken down into specific market segments and the segments the owner will be prioritizing.

e. Competition and competitive edges

f. Estimated market share and sales

g. Ongoing market evaluation: How the owner will continue to evaluate the target markets to assess customer needs and service and guide product-improvement programs.

The Economics of The Business…….211-213

a. Revenue sources and gross operating margins: how the business makes money

b. Fixed and variable costs;

c. Operating leverage and its implications

d. The overall economic model

e. Charting sales volume necessary to breakeven relative to projected total sales

STAGE II

THE NITTY-GRITTY OF HOW YOU WILL MAKE THINGS OPERATIONAL

The Marketing, Design and Development, Operations, and Management Team sections

The Marketing Plan……..213-216

a. Overall marketing strategy

b. The pricing strategy for the product or service

c. The selling cycle (i.e., how the owner's overall use of personal selling, advertising, publicity, etc., moves the target customer through the buying process)

(d) Sales tactics

(e) Advertising and sales promotion

(f) Publicity

(g) Customer service

(h) Warranty or guarantee policies

(i) Method of distribution

Design and Development Plan…… 216-217

a. The present state of development of the product or service

b. Difficulties and risks

c. Product improvement and new products

d. Costs

e. Proprietary issues (i.e., any patent, trademark, copyright, or intellectual property rights the owner is seeking)

Operations Plan…….218-220

a. Operating Model and Cycle (a day in the life of actually producing your product or creating your service)

b. Geographic Location

c. Facilities, Equipment, and Improvement

d. Operations, Strategy, and Plans

e. legal issues Affecting Operations

Management Team……...220-221

a. Organizational structure of the venture

b. Description of the board of directors and key advisors

c. Description of the ownership position of any other investors

STAGE III

IMPLEMENTATION, WHAT CAN GO WRONG, HOW THE BUSINESS WILL PERFORM, AND HOW MUCH MONEY IS NEEDED (PROPOSED COMPANY OFFERING)

Timetable (Overall Schedule), Risks and Assumptions, Financials and the Offering or Deal

Overall Schedule……..222-223

a. Month-by-month schedule that shows the timing of such activities as product development, market planning, sales programs, production, and operations

b. Schedule of deadlines critical to the venture's success such as incorporation of the venture, rental of facilities, obtaining sales representatives, receiving the first payment on accounts receivable

c. Activities most likely to cause the projected schedule of events not to materialize as planned

Critical Risks, Problems, and Assumptions……..223-224

a. Revenue Forecast

b. Development Expenses (number of people, key salaries, sub-contracts)

c. Working Capital (accounts receivable, inventory, payables)

d. Ability to obtain key distribution channel

e. Licenses and Permits

f. Getting a patent, license, or permit

g. Discuss the Assumptions or Potential Problems and Risks Most Critical to the Success of the Venture and How You Plan to Minimize the Impact of Unfavorable Developments

Examples:

running out of cash before you secure orders

competitor risks (e.g., You are preempted in the market by a competitor

potential cost-cutting by competitors

potentially unfavorable industry wide trends

difficulties encountered in obtaining needed bank credit

Financial Plan……...224-227

a. pro forma income statements which project the company's income for the first 3-5 years (and which display this data monthly for at least the first 1-2 years)

b. pro forma balance sheets which project the company's assets, liabilities and net worth for the first 3-5 years

c. pro forma cash flow analysis which project the company's cash flow for the first 3-5 years (and which displays this data monthly at least for the first 1-2 years).

d. Months to Breakeven and to Positive Cash Flow

e. Cost Control

f. Highlights of the Financial Statements

Proposed Company Offering……..227-228

Amount of any money that the owner
is seeking raise, how the company will use the capital invested by the investors, the means by which the company will deliver the targeted investment return it projects for the investors in the business

a. Desired Financing (debt, equity, non-traditional financing?)

b. Structure of the Financial Deal (when doing an equity or other primary market offering using the company's securities; what type of security will you offer—**common stock**, **preferred stock**, **convertible debentures**, **debt securities with warrants**, **debt plus stock)**

c. Capitalization of the Business

d. Use of the Funds

e. Investor's Return and Exit Strategy

Checklist of 40 Important Issues to Include in a Business Plan……...228-231

DATES OF COVERAGE: _____

RAISING CAPITAL FOR YOUR BUSINESS……233-242

DATES OF COVERAGE: _____

TAX MATTERS FOR BUSINESS OWNERS…….243-261

DATES OF COVERAGE: _____

3. PEST ANALYSIS

PORTER'S FIVE FORCES

1. **Existing competitive rivalry between suppliers**
2. **Threat of new market entrants**
3. **Bargaining power of buyers**
4. **Power of suppliers**
5. **Threat of substitute products (including technology change)**

Typically this five forces model is shown as a series of five boxes in a cross formation, item 1 being central. Porter's Five Forces model can be used to good analytical effect alongside other models such as the SWOT and PEST analysis tools.

SWOT analysis is a strategic planning method used to evaluate the **S**trengths, **W**eaknesses, **O**pportunities, and **T**hreats involved in a project or in a business venture. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favorable and unfavorable to achieve that objective. The technique is credited to Albert Humphrey, who led a convention at Stanford University in the 1960s and 1970s using data from Fortune 500 companies.

A SWOT analysis must first start with defining a desired end state or objective. A SWOT analysis may be incorporated into the strategic planning model. Strategic Planning has been the subject of much research.

- **S**trengths: characteristics of the business or team that give it an advantage over others in the industry.

- **W**eaknesses: are characteristics that place the firm at a disadvantage relative to others.
- **O**pportunities: *external* chances to make greater sales or profits in the environment.
- **T**hreats: *external* elements in the environment that could cause trouble for the business.

Identification of SWOTs is essential because subsequent steps in the process of planning for achievement of the selected objective may be derived from the SWOTs.

PEST analysis stands for "**P**olitical, **E**conomic, **S**ocial, and **T**echnological analysis" and describes a framework of macro-environmental factors used in the environmental scanning component of strategic management. It is a part of the external analysis when conducting a strategic analysis or doing market research, and gives an overview of the different macro environmental factors that the company has to take into consideration. It is a useful strategic tool for understanding market growth or decline, business position, potential and direction for operations.

The growing importance of environmental or ecological factors in the first decade of the 21st century have given rise to green business and encouraged widespread use of an updated version of the PEST framework. STEER analysis systematically considers Socio-cultural, Technological, Economic, Ecological, and Regulatory factors. **Political** factors, are how and to what degree a government intervenes in the economy. Specifically, political factors include areas such as tax policy, labor law, environmental law, trade restrictions, tariffs, and political stability. Political factors may also include goods and services which the government wants to provide or be provided (merit goods) and those that the government does not want to be provided (demerit goods or merit bads). Furthermore, governments have great influence on the health, education, and infrastructure of a nation.

- **Economic** factors include economic growth, interest rates, exchange rates and the inflation rate. These factors have major impacts on how businesses operate and make decisions. For example, interest rates affect a firm's cost of capital and therefore to what extent a business grows and expands. Exchange rates affect the costs of exporting goods and the supply and price of imported goods in an economy

- **Social** factors include the cultural aspects and include health consciousness, population growth rate, age distribution, career attitudes and emphasis on safety. Trends in social factors affect the demand for a company's products and how that company operates. For example, an aging population may imply a smaller and less-willing workforce (thus increasing the cost of labor). Furthermore, companies may change various management strategies to adapt to these social trends (such as recruiting older workers).

- **Technological** factors include technological aspects such as R&D activity, automation, technology incentives and the rate of technological change. They can determine barriers to entry, minimum efficient production level and influence outsourcing decisions. Furthermore, technological shifts can affect costs, quality, and lead to innovation.

- **Environmental** factors include ecological and environmental aspects such as weather, climate, and climate change, which may especially affect industries such as tourism, farming, and insurance. Furthermore, growing awareness of the potential impacts of climate change is affecting how companies operate and the products they offer, both creating new markets and diminishing or destroying existing ones.

- **Legal** factors include discrimination law, consumer law, antitrust law, employment law, and health and safety law. These factors can affect how a company operates, its costs, and the demand for its products.

Porter's Five Forces Model provides suggested points under each main heading, by which you can develop a broad and sophisticated analysis of competitive position, as might be used when creating strategy, plans, or making investment decisions about a business or organization.

Porter is also known for his simple identification of five generic descriptions of industries:

1. **Fragmented** (e.g., shoe repairs, gift shops)
2. **Emerging** (e.g., space travel)
3. **Mature** (e.g., automotive)

4. **Declining** (e.g., solid fuels)
5. **Global** (e.g., micro-processors)

And Porter is also particularly recognized for his competitive 'diamond' model, used for assessing relative competitive strength of nations, and by implication their industries:

1. **Factor Conditions:** production factors required for a given industry, e.g., skilled labor, logistics and infrastructure.
2. **Demand Conditions:** extent and nature of demand within the nation concerned for the product or service.
3. **Related Industries:** the existence, extent and international competitive strength of other industries in the nation concerned that support or assist the industry in question.
4. **Corporate Strategy, Structure and Rivalry:** the conditions in the home market that affect how corporations are created, managed and grown; the idea being that firms that have to fight hard in their home market are more likely to be able to succeed in international markets.

Michael Porter's key books:

Competitive Strategy: Techniques for Analyzing Industries and Competitors, 1980
Competitive Advantage: Creating and Sustaining Superior Performance, 1985
Competition in Global Industries, 1986
The Competitive Advantage of Nations, 1990

Why not take 5 minutes to learn how to use all five forces in the porter model to ensure you can analyze and understand the nature of competition in your industry.

- The Bargaining Power of Your Customers
- The Threat of New Entrants into your Industry
- The Bargaining Power of Suppliers
- Threat of Substitute Products
- Industry Rivalry

Porter's Five Forces - Competitive Analysis

And the Threat of Substitute Products

A free how to guide, Quick link to porter five forces

Introduction to the Threat of Substitute Products

An analysis of the threat of substitute products will identify the likelihood that customers to your industry will switch to purchasing an alternative product from outside your industry.

You will find that the impact on your industry will vary depending on the take up rate of the substitute products. A substitute product can decimate an industry overnight or may have little to no long term impact.

Analyzing the threat of Substitute Products

To analyze the threat of Substitute Products, you will need to consider the following factors,

Analysis Criteria	Description
The relative price performance of substitutes	Refers to the cost effectiveness of the substitute products, (Total supply chain costs) Alternative products that provide overall savings to your customers, without impacting the quality of your customer's products or services are more likely to be viewed favorably for adoption.
Switching costs	Refers to any cost incurred by your customers to switch to an alternative product Does your customer incur any costs to switch to a substitute product? These costs could be legal review of new contracts, change in spare parts and change in ordering systems. These may also be intangible costs such as risk.
Buyer propensity to substitute	Refers to your customers loyalty to your product or service How do your customers react to substitutes, do they try them or are they loyal to your industry? It would also pay to identify the things that need to change for your customers to change their propensity to try substitute products.

Analysis Criteria	Risk Rating		
	High	**Medium**	**Low**
The relative price performance of substitutes			
Switching Costs			
Buyer propensity to substitute			
Overall Risk Rating			

Scroll down for another sample porter five forces template

Alternative Template for the Threat of substitute products

The following free strategic planning template can be used to determine if each of the factors that affect the threat of substitute products has a positive or negative risk.

You can then give an overall rating for this force.

The threat of substitute products	Comments on the threat of substitute products	Rating
The relative price performance of substitutes		
Switching Costs		
Buyer propensity to substitute		
The threat of new entrants overall rating		

Porter Model Templates from What Makes a Good Leader

View and download our Porters Five Forces Template Here

After completing your Analysis

After completing your analysis you should transfer the key highlights to your SWOT analysis. Generally you only need to add high level commentary to your SWOT.

Given that Porters five forces is an industry analysis technique you will only need to update the opportunities and threats in your SWOT analysis.

Retail Pricing Strategies

Set the Right Price

By Shari Waters, About.com Guide

- Pricing
- Retail Merchandising Tips
- Retail Store Jobs
- Retail Business Inventory
- Retail

There are many outside influences that affect profitability and a retailer's bottom line. Setting the right price is a crucial step toward achieving that profit. Retailers are in business to make a profit, but figuring out what and how to price products may not come easily.

Before we can determine which retail pricing strategy to use in setting the right price, we must know the costs associated with the products. Two key elements in factoring product cost is the cost of goods and the amount of operating expense.

The **cost of goods** includes the amount paid for the product, plus any shipping or handling expenses. The **cost of operating the business, or operating expense**, includes overhead, payroll, marketing and office supplies.

Regardless of the pricing strategy used, **the retail price of the products should more than cover the cost of obtaining the goods plus the expenses related to operating the business**. A retailer simply cannot succeed in business if they continue to sell their products below cost.

Retail Pricing Strategies

Now that we understand what our products actually cost, we should look at how our competition is pricing their products. Retailers will also need to examine their channels of distribution and research what the market is willing to pay.

Many pricing strategies exist and each is used based on particular a set of circumstances. Here are a few of the more popular pricing strategies to consider:

Mark-up Pricing

Markup on cost can be calculated by adding a pre-set (often industry standard) profit margin, or percentage, to the cost of the merchandise.

Markup on retail is determined by dividing the dollar markup by retail.

Be sure to keep the initial mark-up high enough to cover price reductions, discounts, shrinkage and other anticipated expenses, and still achieve a satisfactory profit. Retailers with a varied product selection can use different mark-ups on each product line.

Vendor Pricing

Manufacturer suggested retail price (MSRP) is a common strategy used by the smaller retail shops to avoid price wars and still maintain a decent profit. Some suppliers have minimum advertised prices but also suggest the retail pricing. By pricing products with the suggested retail prices supplied by the vendor, the retailer is out of the decision-making

process. Another issue with using pre-set prices is that it doesn't allow a retailer to have an advantage over the competition.

Competitive Pricing

Consumers have many choices and are generally willing to shop around to receive the best price. Retailers considering a competitive pricing strategy will need to provide outstanding customer service to stand above the competition.

Pricing below competition simply means pricing products lower than the competitor's price. This strategy works well if the retailer negotiates the best prices, reduces costs and develops a marketing strategy to focus on price specials.

Prestige pricing, or pricing above competition, may be considered when location, exclusivity or unique customer service can justify higher prices. Retailers that stock high-quality merchandise that isn't available at any other location may be quite successful in pricing their products above competitors.

Psychological Pricing

Psychological pricing is used when prices are set to a certain level where the consumer perceives the price to be fair. The most common method is odd-pricing using figures that end in 5, 7 or 9. It is believed

that consumers tend to round down a price of $9.95 to $9, rather than $10.

Other Pricing Strategies

Keystone pricing is not used as often as it once was. Doubling the cost paid for merchandise was once the rule of pricing products, but very few products these days allow a retailer to keystone the product price.

Multiple pricing is a method which involves selling more than one product for one price, such as three items for $1.00. Not only is this strategy great for markdowns or sales events, but retailers have noticed consumers tend to purchase in larger amounts where the multiple pricing strategy is used.

Discount pricing and price reductions are a natural part of retailing. Discounting can include coupons, rebates, seasonal prices and other promotional markdowns.

Merchandise priced below cost is referred to as loss leaders. Although retailers make no profit on these discounted items, the hope is consumers will purchase other products at higher margins during their visit to the store.

As you develop the best pricing model for your retail business, understand the ideal pricing strategy will depend on more than costs. It also depends on good pricing practices.

It is difficult to say which component of pricing is more important than another. Just keep in mind, the right product price is the price the consumer is willing to pay, while providing a profit to the retailer.