Notes on BUS102

Chapter 01

Entrepreneurship and Small Business Management

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ENTREPRENEURSHIP AND WEALTH BUILDING

one thing you can learn from the chapter-opening profile is that success in business is often based on the strategy of finding a need and filling it. Nick Graham saw the need for a grocery store in town and he filled it. This strategy lets you help the community in several ways. you provide needed goods, jobs and services to people in the area. Goods are tangible products such as computers, food, clothing, cars, and appliances. Services are intangible products (i.e., products that can't be held in your hand) such as education, health care, insurance, recreation, and travel and tourism.

Who is an entrepreneur?

An entrepreneur is a person who risks time and money to start and manage a business. Entrepreneurs like Nick Graham know there is more to business than just getting started. As Graham opens more and more stores, he will need to have a reliable accountant, good lawyer; and strong managers and other employees

An entrepreneur is an individual who sets up business or businesses, identifies and solves problems, creative, innovative, opportunist, risk-taker, self-starter, and open-minded with the hope of making a profit from the enterprise.

Role of the Entrepreneurs

An entrepreneur is a starter. An entrepreneur is an initiator, a challenger and a driver. Someone that creates something new, either an initiative, a business or a company. He or she is the beginning (and sometimes the end) of a venture, project or activity. The entrepreneur might not be the ideator, but he or she is definitely the one that decides to make that idea a reality.

An entrepreneur is the driver. The entrepreneur is the person in charge, the leader and the person to look to for leadership. He or she is the one that pushes forward and inspires a team to follow. The entrepreneur is the one that sits in the driver's seat, and has the ability to change direction, accelerate, slow down or even stop a venture.

An entrepreneur is accountable and responsible. The entrepreneur is the ultimate responsible for the destiny of its venture, which can be a company, a project, or any other endeavor. The entrepreneur is the one that has the highest stakes at the venture, thus the one that needs to be empowered to fully direct the endeavor.

Entrepreneurship is more than financial gains

We tend to associate entrepreneurship with direct financial benefits and risk, but not only when the entrepreneur has equity in the company, he or she is exposed to the financial upsides and downturns. Corporate ventures and corporate entrepreneurship allows "corporate entrepreneurs" to benefit of the upsides of their projects without having equity stakes.

Be **innovative** - entrepreneurs can show innovation by changing, adapting and developing their products and the way they do things in a business. Being innovative when starting up may mean adapting existing businesses ideas and products, eg a lightbulb being adapted to become an energy-efficient LED lightbulb.

Identifying opportunities - entrepreneurs must be able to seek out an identify opportunities such as which new products to release and opportunities to expand into different markets. Opportunities when starting up relate to coming up with an initial business idea and spotting the opportunities to act on the idea.

Organizing resources – entrepreneurs must be good at organizing resources, this means that they must be able to effectively manage employees, money, buildings, products and any other business resources. When starting up, it is important that an entrepreneur arranges each resource effectively.

Passion is the real drive

There is another element that really dwells at the center of any entrepreneur: passion! An entrepreneur possesses an interior fuel and stamina that drives his or her actions; this superior energy helps to overtake and surpass the different challenges and it injects strength to continue pursuing goals when difficulties arise. Anyone can be an entrepreneur and behave like one-regardless of whether or not they happen to be an equity holder. Ultimately, it's all about the attitude when running the show.

Entrepreneurs Spur Economic Growth

New products and services created by entrepreneurs can produce a cascading effect, where they stimulate related businesses or sectors that need to support the new venture, furthering economic development.

For example, a few information technology companies made up the IT industry in India during the 1990s. The industry quickly expanded and many other sectors benefited from it. Businesses in associated industries—such as call center operations, network maintenance companies, and hardware providers—flourished. Education and training institutes nurtured a new class of IT workers who were offered better, high-paying jobs.

Similarly, future development efforts in other countries require robust logistics support, capital investments, and a qualified workforce. From the highly qualified programmer to the construction worker, entrepreneurship benefits a large part of the economy. In the U.S. alone, small businesses created 1.6 million net jobs in 2019.

Entrepreneurship VS Working for others

There are two ways to succeed in business. One is to rise through the ranks of large companies. The advantage of working for others is that somebody else assumes the company's entrepreneurial risk and provides you with benefits like paid vacation time and health insurance.la It's a good option, and many people choose it.

As an entrepreneur, you don't receive any benefits such as paid vacation time, day care, a company car or health insurance. You have to provide them for yourself! But what you gain-freedom to make your own decisions, opportunity, and possible wealth--is often worth the effort.

What Is a Business Plan?

A business plan is a written document that describes in detail how a business usually a startup—defines its objectives and how it is to go about achieving its goals. A business plan lays out a written roadmap for the firm from marketing, financial, and operational standpoints.

Business plans are important documents used to attract investment before a company has established a proven track record. They are also a good way for companies to keep themselves on target going forward.

Although they're especially useful for new businesses, every company should have a business plan. Ideally, the plan is reviewed and updated periodically to see if goals have been met or have changed and evolved. Sometimes, a new business plan is created for an established business that has decided to move in a new direction

5 ELEMENTS

1. **Description of the business & goals**

When describing your business, the first thing you need to concentrate on is its structure. By structure we mean the type of operation, i.e. wholesale, retail, food service, manufacturing or service-oriented. Also state whether the business is new or already established.

In addition to structure, legal form should be reiterated once again. Detail whether the business is a sole proprietorship, partnership or corporation, who its principals are, and what they will bring to the business.

You should also mention who you will sell to, how the product will be distributed, and the business's support systems. Support may come in the form of advertising, promotions and customer service.

2. Customer Analysis- knowing your customer

An important step in writing a successful and useful business plan is analyzing your customers. Without knowing who your customers are, you can't effectively market your products or services, nor are you likely to find anyone willing to invest in your business. Here is how to analyze your customers for your business plan.

The Customer Analysis section of the business plan assesses the customer segments that the company serves. In it, the company must 1) identify its target customers, 2) convey the needs of these customers, and 3) show how its products and services satisfy these needs.

3.Operations Plan- organizing the business

This section outlines all the day-to-day operations of the business. It involves detailing all the processes and resources that the company requires for each of its activities. You should include:

- Production or Service Delivery;
- Quality Control;
- Inventory;
- Suppliers;
- Credit policies;

- Legal environment;
- Location.

4. Marketing Plan- marketing & advertising

This area describes how the company will attract and keep its customer base and how it intends to reach the consumer. This means a clear distribution channel must be outlined. It will also spell out advertising and marketing campaign plans and through what types of media those campaigns will exist on.

5. Financial Plan- Creating a Budget:

Your Financial Plan is **possibly the most important element of your business plan**. This is especially true if the business plan is aimed at investors or lenders.

This section includes projections, budgets and goals that are unique to each business. In particular, you should **focus on explaining the assumptions on which you based your forecasts**, more than on the forecasts themselves.

FORMS of BUSINESS OWNERSHIP

How you form your business can make a tremendous difference in your long-term success. The three major forms, of business ownership are 1."sole proprietorships, (2) partnerships, and 3) corporations. Each has advantages and disadvantages that we'll discuss. -

SOLE PROPRIETORSHIPS

Advantages of Sole Proprietorships

Sole proprietorships are the easiest kind of businesses to explore in your quest for an interesting career. Every town has sole proprietors you can visit. Talk with some of these businesspeople about the joys and frustrations of being on their own. Most will mention the benefits of being their own boss and setting their own hours. Other advantages include:

i. **Ease of starting and ending the business.** All you have to do to start a sole proprietorship is buy or lease the needed equipment (a saw, a laptop, a tractor, a lawn mower) and put up some announcements saying you are in business. You may have to get a permit or license from the local goverrrment, but often that is no problem. -It is just as easy to get out of business; you simply stop. There is no one to consult or disagree with about such decisions.

2. Being your boss

Working for others simply does not have the same excitement as working for yourself-at least, that's the way sole proprietors feel. you may make mistakes, but they are your mistakes-and so are the many small victories each day.

3.**Pride of ownership.**

People who own and manage their own businesses are rightfully proud of their work. They deserve all the credit for taking the risks and providing needed goods or services.

4. **Leaving a legacy**

Owners-can leave an ongoing business for future generations.

5. **Retention of company profit**

Owners not only keep the profits earned but also benefit from the increasing value as the business grows

6. No special taxes

AII the profits of a sole proprietorship are taxed as the personal income of the owner and the owner pays the normal income tax on that money.

Disadvantages of Sole Proprietorships

Not everyone is equipped to own and manage a business. Often it is difficult to save enough money to start a business and keep it going. The costs of inventory, supplies, insurance, advertising, rent, computers, utilities, and so on may be too much to cover alone.

There are other disadvantages:

1. Unlimited liability-the risk of personal losses. when you work for others, it is their problem if the business is not profitable. when you own your own business, you and the business are considered one. You have unlimited liability; that is, any debts or damages incurred by the business are your debts and you must pay them, even if it means selling your home, your car, or whatever else you own

2. Limited financial resources. Funds available to the business are limited to what the one owner can gather. Since there are serious limits to how much money one person can raise, partnerships and corporations have a greater probability of obtaining the financial backing needed to start and equip a business and keep it going.

3. Management difficulties

All businesses need management; someone must keep inventory accounting, and tax records. Many people skilled at selling things or providing a service are not so skilled at keeping records. Sole proprietors often find it difficult to attract qualified employees to help run the business because often they cannot compete with the salary and benefits offered by larger companies.

4. overwhelming time commitment. Though sole proprietors say they set their own hours, it's hard to own business, manage it, train people, and have time for anything else in life when there is no one with whom to share the burden.

Partnerships

Partnership is a legal form of business with two or more owners. There are several types: (1) general partnerships, (2) limited partnerships,

In a general partnership all owners share in operating Business and in assuming liability for the business's debts. A limited partnership has one or more general partners and one or more limited partners. - general partner is an owner (partner) who has unlimited liability and is active in managing the firm. Every partnership must have at least one general partner. A limited partner is an owner who invests money in the business but does not have any management responsibility or liability for losses beyond his or her investment. Limited liability means that the limited partners' liability for the debts of the business is limited to the amount they put into the company their personal assets are not at risk.

Advantages of Partnerships

Often, it is much easier to own and manage a business with one or more partners. Your partner may be skilled at inventory control and accounting, while you do the selling or servicing. A partner can also provide additional money support, and expertise as well as cover for you when you are sick or on vacation. The Spotlight on Small Business box offers a few tips about choosing a Partnerships usually have the following advantages:

1. More financial resources. When two or more people pool their and credit, it is easier to pay the rent, utilities, and other bills i by a business. A limited partnership is specially designed to help money. As mentioned earlier, a limited partner invests money in business but cannot legally have any management responsibility has limited liability.

2. Shared management and complementary skills and knowledge is simply much easier to manage day-to-day activities of a business carefully chosen partners.

Partners give each other free time from business and provide different skills limited liability. Some people find that best partner is a spouse. Many husbands and-wife teams manage service shops, and other businesses.

3. Longer survival

One study that examined 2,000 businesses started since 1960 and found that partnerships were four times likely to succeed as sole proprietorships. Being watched by a partner can help a business become more disciplined.

4. No special taxes.

From a tax perspective, partnerships in Bangladesh are not taxed at the entity level and profits are treated as part of each partners' personal income and are taxed at personal income tax rates. A partnership firm will have to take a separate TIN under the name of their firm. Say your partnership venture earned BDT 10 lac profit this year. Upto 2,50,000 shall be exempted as per the Individual Tax Rate, the rest shall be taxed & after that the profit gained under the partnership venture will be tax-free for the partners. NO Double Taxation for Partners unlike shareholders of the limited companies in Bangladesh.

Disadvantages of Partnerships

Anytime two people must agree, conflict and tension are possible. partnerships have caused splits between relatives, friends, and spouses. Let's explore the disadvantages of partnerships

1. Unlimited liability.

Each general partner is liable for the debts of the firm, no matter who was responsible for causing them. you are liable for your partners' mistakes as well as your own. Like sole proprietors, general partners can lose their homes, cars, and everything else they own if the business loses a lawsuit or goes bankrupt.

2. Division of profits.

Sharing risk means sharing profits, and that can cause conflicts. There is no set system for dividing profits in a partnership, and they are not always divided evenly. For example, if one partner puts in more money and the other puts in more hours, each may feel justified in asking for a bigger share of the profits.

3. Disagreements among partners.

Disagreements over money are just one example of potential conflict in a partnership. who has final authority over employees? Who hires and fires employees? Who works what hours? What if one partner wants to buy expensive equipment for the firm and the other partner disagrees? All terms of the partnership should be spelled out in writing to protect all parties and minimize misunderstandings.

4. Difficulty of termination.

Once you have committed yourself to a partnership it is not easy to get out of it. Sure, you can just quit. Howeve4 questions about who gets what and what happens next are often difficult to resolve when the partnership ends. Surprisingly, law firms often have faulty partnership agreements and find that breaking up is hard to do. How do you get rid of a partner you don't like? It is best to decide such questions up front in the partnership agreement.

CORPORATIONS

Most Bangladeshi companies are registered as private limited liability companies, commonly known as private limited companies. A private limited company in Bangladesh is a separate legal entity and shareholders are not liable for the company's debts beyond the amount of share capital they have contributed. According to the Companies Act 1994, any person (foreign or local) above the age of 18 can register a company in Bangladesh.

Advantages of Corporations

people are not willing to risk everything to go into business. Yet for a business to grow prosper and create economic opportunity, many people have willing to invest money in it. One way to solve this problem is to create artificial being, an entity that exists only in the eyes of the law-a corporation. Let's explore some of the advantages of corporations.

1. Limited liability.

A major advantage of corporations is the limited liability of their owners. Remember limited liability means that the owners of a business are responsible for its losses only up to the amount they invest in it.

2. Ability to raise more money for investment

To raise money, a corporation can sell shares of its stock to anyone who is interested. This means that millions of people can own part of major companies like IBM, Xerox, and Cisco, and smaller companies as well. If a company sells 10 million shares for $50 each, it will have $500 million available to build plants, buy materials, hire people, manufacture products, and so on. Such a large amount of money would be difficult to raise any other way. Corporations can also borrow money. They borrow from individual investors by issuing bonds, which are promises to repay the loan in the future with interest. Firms can also obtain loans from financial institutions.

3. size.

"size" summarizes many of the advantages of some corporations. Because they can raise large amounts of money to work with, big corporations can build modern factories or software development facilities with the latest equipment. They can hire experts or specialists in all areas of operation. They can buy other corporations in different fields to diversify their business risks. In short, a large corporation with numerous resources can take advantage of opportunities anywhere in the world. But corporations do not have to be large to enjoy the benefit-s of incorporating. Many doctors, lawyers, and individuals, as well as partners in a variety of businesses, have incorporated. The vast majority of corporations in the United States are small businesses.

4. Perpetual life.

Because corporations are separate from those who own them, the death of one or more owners does not terminate corporation.

5. Ease of ownership change.

It is easy to change the owners of corporation. All that is necessary is to sell the stock to someone else.

6. Ease of attracting talented employee.

Corporations can attract skilled employees by offering such benefits as stock options (the right to purchase shares of the corporation for a fixed price.

7. Separation of ownership from management.

Corporations are able to raise money from many different owners/stockholders without getting them involved in management. The owners/stockholders elect a board of directors, who hire the officers of the corporation and oversee major policy issues. The owners/stockholders thus have some say in who runs the corporation but have no control over the daily operations.

Disadvantages of Corporations

The following are a few of the disadvantages of the corporations.

1. Initial cost

Incorporation may cost thousands of dollars and require expensive lawyers and accountants. There are less expensive ways of incorporating in certain states but many people do not have the time or confidence to go through this procedure without the help of a potentially expensive lawyer.

2. Extensive paperwork. The paperwork needed to start a corporation is just the beginning. A sole proprietor or partnership may keep rather broad accounting records. A corporation, in contrast, must keep detailed financial records, the minutes of meetings, and more.

3. Double taxation. Corporate income is taxed twice. First the corporation pays tax on its income before it can distribute any, as dividends, to stockholders. Then the stockholders pay income tax on the dividends they receive. states often tax corporations more heavily than other enterprises, and some special taxes apply only to corporations.

4. Two tax returns. An individual who incorporates must file both a corporate tax return and an individual tax return. Depending on the size of the corporation, a corporate return can be quite complex and require the assistance of a certified public accountant (CPA).

5. Size. Size may be one advantage of corporations, but it can be a disadvantage as well. Large corporations sometimes become too inflexible and tied down in red tape to respond quickly to market changes, and their profitability can suffer.

6. Difficulty of termination. Once a corporation has started, it's relatively hard to end.

7. Possible conflict with stockholders and board of directors. Conflict may brew if the stockholders elect a board of directors who disagree with management. Since the board of directors chooses the company’s officers, entrepreneurs serving as managers can find themselves forced out of the very company they founded. This happened to Tom Freston, one of the founders of MTV, and Steve Jobs, a founder of Apple Computer (Jobs later returned to the company).