

## Entrepreneurship (CC399)

### Chapter 1 – Dictation Notes

**Entrepreneur:** Person who organize /manages & assume risk of a business enterprise.

- Catalyst for Change
- Creative distractor

**Business:** Is an economic activity that deals to industry(Production) and commerce (exchange)  
Industry: firms which are having the same manufacturing process  
Commerce can be classified as *Aid to trade* and *Trade*

#### Facilities of Trade

1: **Standardization:** Product quality based on standard (spec)

2: **Grading:** Ranking the product as A-B-C based on established standard

#### Promotional Tools

1: **Advertising:** paid form of non personal presentation of Ideas, goods, services, through an identified sponsor.

It merely means to inform, persuade (advert competitor), at maturity cycle, remind the potential as well as ultimate customers for the purpose of selling the company's good's / services

2: **Personal selling:** face to face interaction with ultimate potential customer for the purpose of selling the company's goods/Services. The most costly.

Used on a situation when

- 1 - Unit value of product increase
- 2 - Negotiable price
- 3 - High customer info requirement
- 4 - High degree of customization
- 5 - The product requires after sale service

→ **Push:** Retailer persuading customer      → **Pull:** Retailer asking for product

5: **Sales promotion:** short term incentives intended to induce trial / purchase a product. The main Objective is to increase the sales volume. Usually have unsold inventory

6: **Direct Marketing (Mail Advert):** use of telecoms to directly solicit an order from a designated group of buyers

- the most selective selective of all other medias

Tools

- Telemarketing	- Price List
- Catalog retailing	- Kiosk marketing
- Automating vending	- E-commerce (Internet and Email Marketing)

**Public Relation:** A variety of ways designed to build or promote the companies' images/activities

like lobbying, civic activities via photographs

**Finance:** Life blood of an Organization.

**Risk** is a potential outcome

**Entrepreneurship** is act of turning an idea into business. It is Process of vision, Change and creation. Is is used to peruse an opportunity

Both Managers and Entrepreneurs are decision makers, resource users and work to meet objective, but managers don't take risk

#### Skill and competence of an Entrepreneur

- **Management:** According to Mary Parker, it's the art of getting things done through other people.

→ Process of planing, Organizing, staffing, leading, controlling the Organizational activities to achieve organizational goals

→ It is Controlling of resources (Input, process, output)

#### 7 M's to input

- Money	- Men
- Machinery	- Materials
- Market Information	- Method
- Management	- Process

Output = product, service, goods, Ideas:

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2. **Motivation** : from Greek word mover meaning to move. Unsatisfied Need so he needs motive to achieve goals

**Need:** A state of felt deprivation for basic satisfaction that that arises out of Physiological or psychological imbalances.

**Drive/Motive:** An inner feeling that stimulate a person to act

Goal: the desired outcome.

Carrot(Positive Motive) and Stick(Negative Motive) Approach

Extrinsic: External (salary)      Fear (Negative) : 4P'S

Intrinsic: Internal (praise)

3. **Leadership:** Ability of a person to have a follower without the use of force / coarse

#### 3 types

A. Autocratic (Downward): Use force to get the jobs done from Subordinate

B. Democratic: Round table discussion, Allow Vertical (up/down

Communication)

C. Laissez fair / free rain: No confidence in them selves and leave the entire decision making to their Subordinate

**Project;** is type of plan having limited time span.

**Time:** is a valuable resource where once lost cant be recovered.

Eg: We have been given \$18400 USD to spend it over night. you aren't aloud to give it to a third party. How do you spend the money?

- **Delegation skill**

**Delegation:** Art of management. According to Lanis A-Ale, Once a mans job goes beyond his capacity his ability lies in multiplying him Self through delegation.

- **Negotiation Skill**

*Case 2: General motor, the leading car manufacturer in the word one time failed meeting its customer are in reed of fuel efficient car. The manufacture however said the American, are patriotic & Preferred to buy US made cars. The German & Japaneses car manufacturer considering the market needs they produce fuel efficient car but general motors of its ignorance. Even though General motors produce some products at minimal cost. What shall we say about general motors. Are they effective or efficient.*

**Efficiency** means doing things right.

**Effectiveness** means doing the right thing.

**Perseverance:** Endurance. Despite the repeated failure no stop until they accomplish. Failure isn't an option for an entrepreneur

- **Problem Solving Skill**

**Problem:** Any performance over or under the planned activity, See and act on Opportunities

**Opportunities:** An area of buyer need where a firm serve the market profitability

Info seeking: vital tor success of organization

**Decision making:** Conscious determination of alternative. It is conscious determination of alternative.

#### Role a Entrepreneur

1. Provide employment Opportunity
2. Increase living Standard:
3. Maximizing investors return (wealth)
4. Balancing regional disparity
5. Forward(Integrate with a distributor) & Backward(Integrate business raw material with main source) linkage

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- **Planning:** Deciding in advance what objective to peruse during the future time period.

#### A. Use based plan

- Vision	- Mission
- Rule	- Budget
- Objective	- Strategy
- Policy	- Procedure
	- Program

#### B. Time Based plan

- Long term 25ys      - Middle (Strategic) 5yrs      - Operational (derivative) 1 yr

**Vision:** type of plan that dictates where the company wants to be in a specific time period

Eg: To become top 10 uni in 2025

**Mission:** type of plan that dictates boundaries a a company's algorithm.

→ Sates broadly the economic and social objectives in their mission statement t

Eg: To produce goods/services there by making it available as the customer door step to up lift the living Standard of the society.

**Objective:** desired outcome. End result where other activities are entailed. While setting an objective follow:

#### SMART

Specific	Measurable	Attainable	Realistic	Time bounded
----------	------------	------------	-----------	--------------

*Case 1: Three stone cutters have been asked as to what they do for a living. 1. said I would make a living by stone cutting. 2. said I'll build a cathedral church 3. said stone cutting all over the world. Of these cutters which one is the real manager and why?*

**Strategy:** Broad course of an action plan to meet an objective

Eg: To intensify our promotional effort in domestic as well as international market.

**Policy:** type of plan that guides for decision making

Eg: 2 candidate secure equal mark priority a to be given to female candidates

**Procedure:** type of plan that guides to action.

Eg: One has to fill stores requisition note to get material from the Store.

**Program:** complex of other plan where activities intended to be carried out into a schedule

**Rues:** type of plan that states actions and Non-actions that leaves no discretion

Eg: No smoking

**Budget:** Numbered plan where all the activities to be undertaken are put in form of number.

- **Leading:** Channeling the human behavior toward the accomplishment of a common goal.

#### Elements of leading

1. **Communication:** derives from the Greek word *communicare* meaning sharing of information in common

#### Elements of communication

2 major parties A. Sender B. Receiver

**Receiver:** decode, Response, Reception Lead up to Feedback

**Sender:** Idea, encoding Lead up to Feedback

Major tools of communication:      - Message      - Media

Functions of communication - Encoding      - Decoding      - Noise

- Response      - Feedback

It's a means by which people are linked in an organization

#### Type

→ Downward (vertical): Boss gives, meteors, guides subordinates

→ Upward (upward): Subordinate report to boss

→ Horizontal (lateral): People in same level position communicate in team

→ Diagonal: Inter, Intra, Extra Organization communications

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#### Type of Entrepreneur

##### A. Based on the nature of Business

- Business	- Industrial	- Corporate
- Opportunistic	- Trading	- Agricultural
		- Social

1. **Business:** Combination

2. **Trading:** Engage in exchanging of goods

3. **Industrial:** - consumer (buyers)      - Industrial buyer = to resale to commercial

4. **Agricultural:** mechanized engagement in agriculture

5. **Corporate:** employee in an organization - Intrapreneur

6. **Opportunistic:** whenever i happens an Opportunity indulge in the business

##### B. Based on technology

1. **Technical**

2. **Non-technical:** No technical but ideas

3. **Professional:** Consultants, auditors

##### Based on Motivation

1. **Pure** → for self fulfillment; Motive profit

2. **Induced** → Opportunistic

3. **Motivates** → realistic. Happy both internally and externally

4. **Spontaneous** → Natural born talent

##### Based on domholf's

1. **Innovative** : Invention and commercial application. Creator

2. **Immutation:** imitate others

3. **Fabian:** Skeptical innovators

##### Other forms

1. **Novice-** No prior business experience.

2. **Habitual:** - has a business experience

3. **Nascent:** - Novice or habitual in between.

4. **Serial:** - Open and close business experience.

5. **Drone:** who doesn't want to use any opportunity.

#### Stages of development

1. 1st Gen: Innovators with tech skills.
2. Modern: Adjust based upon their environment change
3. Classical: have supporting business venture

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## Entrepreneurship Short Note

### Chapter 2: Business plan

A business plan is a statement that is 15-25 pages that clearly tells what the company detail is. It is a blue print for action.

A comprehensive statement of your concept, goals, assessments, assumptions, plans, resources, capabilities and requirements to create a successful business

- The “Big Picture” of your business
- “Pulling it all together”
- “Putting yourself on the line”

**Lateral audience:** you can use as a development exercise as a conscious builder and has a basis form of gathering data

- External audience: as a selling document for clients, investors, customers, suppliers and potential employees.
- Internal Audience: Those people, such as yourself and your key employees, who will be an active part of your day-to-day business operations.

**Global mindset:** production of different parts made in different counties by their best provides

#### Types of business plan

- Summary BP → 10 - 15 pages  
Works best for new ventures in the early stages of development that want to “test the waters” to see if investors are interested in their idea.
- Full BP → 25-35 pages  
Works best for new ventures who are at the point where they need funding or financing; serves as a “Blueprint” for the company’s operations.
- Operational BP → 40-100 pages  
Is meant primary for an internal audience; works best as a tool for creating a blue print for a new venture’s operations and providing guidance to operational managers.

#### Importance of Business plan

##### 1. For mergers and acquisition

Mergers means to exist in companies have agreed to enjoy their asset and share their liabilities opening a new amalgamated business to enhance the synergetic effect.

**Acquisition** means acquiring or buying the existing business

##### 2. For strategic alliance (partnership)

Partnership involves a simple agreement in production and distribution.

##### 3. Obtaining a bank financing

##### 4. Attracting key employees

##### 5. Evaluating the management team

##### 6. Creditability Builder: Proof you’ve thought things through

##### 7. A context to deal with the inevitable alterations once underway:

##### 8. A basis for gathering feedback

##### 9. Reduces the anxieties and tension of the entrepreneur

##### 10. Motivating the management team and provides self assessment.

#### Primary audiences of a business plan

- **A Firm’s Employees:** A clearly written business plan helps the employees of a firm operate in sync and move forward in a consistent and purposeful manner.
- **Investors and other external stakeholders:** A firm’s business plan must make the case that the firm is a good use of an investor’s funds or the attention of others.

#### Designing Business Plan

- |                                 |                                |                       |
|---------------------------------|--------------------------------|-----------------------|
| - Cover Page                    | - Table of content             | - Executive summary   |
| - Industrial analysis           | - Company description          | - Product description |
| - Marketing Plan                | - Personal financial Statement |                       |
| - Production and operation plan | - Startup expenses             | - Financial plan      |
|                                 |                                | - Appendix            |

Entrepreneurs should avoid a boilerplate plan that looks as though it came from a “*canmed*” source.

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A business plan needs to project a sense of anticipation and excitement about the possibilities that surround a new venture.

#### Scope and value of the business plan

The scope of the business plan may be dependent on whether the new venture is a service, involves manufacturing, or is a consumer good or industrial product.

Eg: business plan tends to be detail:

- It involves manufacturing;
- It covers larger market;
- It serve larger and disintegrated stakeholders.

The scopes and details of business plan may not be the same because of one or more of the following reasons:

- All business plans are not the same because businesses are different.
- All business plans are not the same because the products are different.
- All business plans are not the same because business plans are written for different reasons.
- All business plans are not the same because they vary in importance.

#### Information need of a Business Plan

The following key issues need to be examined before a plan is written:

- |                    |                          |
|--------------------|--------------------------|
| - Audience         | - Planning Timeline      |
| - Type of Business | - Sources of Information |

**Executive Summary:** a research abstract not more than 2 pages that clearly portrays the summary of your business plan

**Industry analysis:** describes the industry the business will enter in terms of its size, growth rate, and sales projections. Items to include in this section:

- |   |                       |
|---|-----------------------|
| • Industry size, growth rate, and sales projections | • Industry structure  |
| • Nature of participants                            | • Key success factors |
| • Industry trends                                   | • Long-term prospects |

**Industry and market feasibility analysis** have two areas of focus:

1. Determining how attractive an industry is overall as a “home” for a new business.
2. Identifying possible niches a small business can occupy profitably

Industry analysis can be:

- A. Internal → Controllable

- B. External (Micro/ Macro) → Uncontrollable

**Environment:** factors and forces that are affecting the organization activities some internal and others external

- a) **Internal environments-** those environments which are within the control of the management of organization. These factors include marketing department, finance, HR, production, IT, research and development, company location and management.

- b) **External environments -** these are environmental factors which are beyond the control of the organization.

Depending on the impact they further classify as:

1. **External micro,** these are environmental factors found within the immediate environment of the organization that has the ability to affect an organizations ability to make a profit. These factors include market or customers, Suppliers and intermediaries.

- **Market or customer:** the company meets designed based on its customer needs and tailor all its activities towards customer satisfaction. The customer may move to competitors brands.

- **Suppliers:** we have suppliers of raw materials, money and Other services  
Dividing upon the relationships, there might be a possibility of one way of maintaining supplier buyer relationships is to effect the payment whenever it is due

- **Intermediaries:** are a liaison linking the organization with its Customer considering the functions they perform, an organization must provide incentives to intermediaries.

The various functions they perform on behalf of the producer is

- |                          |                         |
|--------------------------|-------------------------|
| 1. Selling and promoting | 2. warehousing          |
| 3. Transportation        | 4. Financial Assistance |
| 5. Information           | 6. Bulk Breaking        |

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The company provides the following incentive to intermediaries

1. Quantity discount: to encourage bulk purchase
2. Trade or functional discount: for all the functions they perform on behalf of produce
3. Cash discount: to encourage credit sales collection
4. Seasonal Discount: Considering
5. Cumulative Discount: Considering the number of transactions

II. **External macro:** these are forces and factors affecting the entire economic operations.

There factors are called **Pestle**. The first pestle is called the **political environment:** the major that affects an economic operation. Some indicators Include:

- 1) **Border conflict:** between Ethiopia and Eritrea devastated the import-export business to and from Ethiopia. In addition the hotel and tourism services war. It was a treat to such businesses. The one business that was flourishing was the food sector.
- 2) **Social unrest (Political Instability)** of a country triggered by the following factors
  - Religions differences
  - Cost differences
  - Racial discrimination
  - Military Violence
  - Assassination of high government officials
  - Inflation
  - Coup d’etat

These factors may have triggered the political instability of a Country.

Eg. In Rwanda due to racial discrimination.

- 3) **The ideology of the government:** one way of classifying the government is based up on the economic system. There are 3 types:

1. Communism (Command Economy): the philosophy is to equally distribute income and wealth. Business should be owned and managed by the government.

It’s called **centralized planned economy (weak economy)**

2. Socialism (Mixed Economy): this type, the government would allow private investment even tho It owns major utility business by itself.

The main role Of the government is to regulate the price in order to avoid inflation.

3. Capitalism (Free market Economy): under this type of government, the main role is one to be out of the business, create conducive environment and protect the intellectual property. Individual being motivated, they invest their capital and expertise in order to excel their competitors the social will be beneficial.

- 4) **Economic Environment:** The various factors that affect the economic activity include:

- |  |                             |
|--|-----------------------------|
| 1. Population  | 2. Income of the population |
| 3. Gross Domestic Product (GDP)  | 4. Balance of Payment (BOP) |
| 5. Inflation   |                             |
| 6. Business life cycle (Recession, depression, recovery and boom/Prosperity) |                             |
| 7. Interest Rate   |                             |
| 8. Tax Rate  |                             |

**GDP:** is the total amount of goods that can be attained by an economy during a specific time period. It indicates the economic development of a nation. The country may set favorable or unfavorable economic policies.

**CDP/capital:** derived by dividing the total GDP by the number of population. So it will tell the economic purchasing power

**BOP:** means the receipt and payment account prepared by the government at the end of every fiscal year. Every year they measure elasticity between import and export.

It is an Indicator for the government either to set a favorable or unfavorable import-export trade policy. If the countries:

- Import is greater than export it is said to be deficit, negative BOP and unfavorable.
- Export is greater than import then it is positive BOP, surplus and favorable.

**Inflation:** means the rise of the product price without the considerable rise in the income of the population. It weakens the purchasing power of the people. It is an indicator of social unrest and political instability.

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#### Business life-cycle

- **Recession:** a period of cost retrenchment curtailing/Cutting where demand is less then supply.
- **Depression:** a period where the economic activities went down where people prefer to save than spend.
- **Recovery:** a period where business recuperate in sales either from recession or depression.
- **Boom/ Prosperity:** a period for business growth where demand is greater than supply and people prefer to spend than save

#### 5) Social /cultural Environment:

**Culture:** means a set of traditional beliefs and values that are transmitted and shared in a given society. It is a total way of life and thinking pattern that passed from generation to generation.

It influences:

- Our consumption pattern
- Thinking process
- Communication

- **Mono chronic/Low context culture:** in this culture, message should be explicitly stated. The communication pattern is direct and personal. Eg: US, UK, and Germany

- **Poly chronic culture:** in this type of culture, in-depth info is required to do a business. The communication pattern is indirect and impersonal. Eg: Ethiopia, China, and Japan

#### 6) Legal environment:

Government sets rule and regulation to harmonize the market to maintain fair competition and safe guard the society well being. There are 2 type of legal systems

- i. **Common Law:** under this type of legal system, the decision of the judge is based on the precedence and convention and not by the previous court of law. The system provides ample discretion for the judge to exercise his expertise while enforcing the ABC of the law.  
Eg: British and its colonies use this

- ii. **Statue law (Civil or code Law):** under this type of legal system, each and every incident which is legal or otherwise, clearly and explicitly stated in the ABC of the law.  
The Judge has no role other than stating whatever is written in the statue law. This is more rigid while the former is more flexible

#### 7) Ethical Environment:

**Ethics:** a moral obligation that business people should have. Includes 4 forces equating to existing rivalry. (**Five Force Model**)

##### a) Threats of new entrants

The larger the pool of potential new entrants, the less attractive an industry is

Industry is more attractive to new entrants when:

- Advantages of economies of scale are absent
- Capital requirements to enter are low
- Cost advantages are not related to company size
- Buyers are not loyal to existing brands
- Government does not restrict the entrance of new companies

##### b) Bargaining power of suppliers

The greater the leverage of suppliers, the less attractive the industry

Industry is more attractive when:

- Many suppliers sell a commodity product
- Substitutes are available
- Switching costs are low
- Items account for a small portion of the cost of finished products

##### c) Bargaining power of Customer/Buyers

Buyers’ influence is high when number of customers is small and cost of switching to a competitor’s product is low

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Industry is more attractive when:

- Customers' switching costs are high
- Number of buyers is large
- Customers want differentiated products
- Customers find it difficult to collect information for comparing suppliers
- Items account for a small portion of customers' finished products

d) *Threats of Substitute*

Substitute products or services can turn an industry on its head

Industry is more attractive to new entrants when:

- Quality substitutes are not readily available
- Substitute product price is not significantly lower than industry's products
- Buyers' switching costs are high

e) *Rivalry among companies in the industry (Strongest of the five forces)*

Industry is more attractive when:

- Number of competitors is large, or, at the other extreme, quite small
- Competitors are not similar in size or capacity
- Industry is growing fast
- Opportunity to sell a differentiated product or service exists

**Company description** should include

- Vision and Mission of the company
- Year of establishment and history
- Current Status
- Major milestone
- Key partners

**Product description**

A business plan based on the idea of a new product or service makes sense when your product or service is superior to the already existing competing products at least in one aspect.

For this reason, include in the description of your project, the characteristics of your product or service that differentiates it from the existing competition in a sustainable way.

- Kind of Product, Service and Use.
- Major Services accompanied.
- Key benefits and features.
- Customers' Advantages or Benefits.
- Status of development of the Products and/or Services.
- Proprietary Position/Your competitive advantage.

**Marketing plan**

The marketing plan focuses on how the business will market and sell its product or service.

Marketing Mix is a set of Marketing tools used by the firm to pursue its marketing objectives in the target market. It is about putting the right product or a combination thereof in the place, at the right time, and at the right price.

The 4Ps Of target market Product

**Product**

- Standardization
- Branding
- Simplification
- Packaging
- Service
- Grading
- Labeling
- Warranty/Guarantee

**Promotion**

- Advertising
- Sales promotion
- Public relations
- Personal selling

**Place**

- Channels of distribution
- Physical distribution

**Price**

- Factors affecting
- Objective
- Pricing methods
- Payment terms
- Credit terms
- Pricing strategy: Scheming or Penetration

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- ✓ *Price scheming* strategy means initially setting highest price to new product.
- ✓ *Market penetration* Strategy means initially setting lower price for new product.

**4Ps Vs 4Cs**

Product	Customer needs
Price	Cost to customer
Promotion	Communication
Place	Convenience

**Product:** is an item that is built or produced to satisfy the needs of a certain group of people. The product can be intangible or tangible as it can be in the form of services or goods.

**Price:** is basically the amount that a customer pays for to enjoy it. It is also a very important component of a marketing plan as it determines your firm's profit and survival.

Adjusting the price of the product has a big impact on the entire marketing strategy as well as greatly affecting the sales and demand of the product.

**Promotion** can be classified as:

- ✓ *Rapid:* company spends substantial amount on promotion.
- ✓ *Slow:* company spends less on promotion.

**Marketing Activities** include:

- Solution: How can I solve my problem?
- Value: What's the total sacrifice for solution?
- Information: Where can I learn more?
- Access: Where can I find it?

**Distribution strategy**

- *Intensive:* Coca and Pepsi
- *Selective:* Car companies
- *Exclusive:* not directly selling to end user. Eg: Sony selling using glorious

**Market Analysis**

The market analysis breaks the industry into segments and zeros in on the specific segment (or target market) to which the firm will try to appeal. Items to include in this section:

- Market segmentation and target market selection
- Buyer behavior
- Competitor analysis

**Market segmentation** means identifying and profiling distinct group of buyers that requires a separate product / marketing mix.

**Market targeting** means selecting one or more market segment to enter.

**Market positioning** means identifying and decimating the product distinctive features in the market. In other words, it means putting the product in the minds of the customer.

**Levels of market segmentation**

1. *Mass marketing:* the company ignore the market segment differences and produce a product that appeals to the mass market
2. *Mass segment*
3. *Mass customization:* the company produces a product that they think will appeal the mass market but are subjected to change based on customer specific need
4. *Niche marketing:* Niche means a small group of buyers whose needs are totally unmet. Markets are losing their marked Shores.
5. *Local marketing:* The company sold its product over to customers when its vicinity/ surrounding

- Differentiated Example: iodized salt, diet coke - Undifferentiated Example: Salt, coke

**Basis for market segmentation**

1. *Demographic segmentation:* where market is segmented based upon:
  - Age
  - Gender
  - Occupation
  - Education
  - Culture
  - Sub-culture
  - Social class
  - Family life cycle
2. *Geographical segmentation:* segmented based upon:
  - Nation
  - Country
  - Region
  - Climate

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3. *Psychological Segmentation:* Segmented based upon:
  - a. Life style: a person's pattern of living as expressed by his activities, interest and Opinions. It means the whole person interacting with his/her environment.
  - b. Personality: a persons psychological distinguishing characters (aggressive, conservative, confidence)
4. *Behavioral segmentation:* the most rational buyers
  - a. Attitude toward the product: negative, positive, or indifferent.
  - b. Cost, durability, reliability, performance, resale value after sale service
  - c. Loyalty status:
    - Hard Core Loyal: Loyal only to one brand.
    - Split loyalty: loyal to two brands.
    - Shifting loyalty: changing loyalty status every now and then.
    - Switchers - Show no loyalty to any brand.
  - d. Usage rate: Consumption
    - Light user
    - Medium user
    - Heavy user
  - e. User Status: - Ex user - None user - First time user - Medium/heavy user
  - f. Occasion
    - Casual
    - Special
    - Rare

**Market Target**

In selecting the marked segment, the company may consider in selecting the following:

1. The attractiveness of the market
2. The extent of competition
3. The competitive advantage

Accordingly the company may consider the following market targeting strategies:

1. *Aggregate Strategy:* Marketing Mix: to mass differentiated and undifferentiated market
2. *Selective Strategy:* Marketing mix A to market B, B→C, C→A
3. *Single Segment Strategy:* Market mix A to market A

**Differentiation** means the act of setting a meaningful difference between an organizational offer as well as its competitors.

**Product differentiation**

- Design
- Features
- Durability
- Reliability
- Reparability
- Style
- Operating cost
- conformance quality

**Service differential**

- Ease of order
- Delivery
- Installation
- Training
- Maintenance - Counseling
- Erection of windows
- Display
- Warranty/Guarantee

**Person differentiation**

- Year of experience
- Competence
- Dependability
- Honest
- Communication ability
- Politeness

**Competitor Analysis**

Describe the environment of the target market, the competitive situation and the strengths of your enterprise as precisely as possible, in order that the reader can receive a comprehensive view of your market position.

- Description of Competitors
- Size of Competitors
- Profitability of Competitors
- Operating Methods

**Positioning Strategy**

1. *Attribute positioning:* Where product is positioned based on size, color and design
2. *Cost/Competitors positioning*
3. *User positioning*
4. *Use positioning*
5. *Benefit positioning*
6. *Product class attribute positioning*

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**Operations and Production Plan**

Outlines how your business will be run and how your product or service will be produced.

A useful way to illustrate what your business will be run is to describe it in terms of:

- "Back stage" (unseen to the customer)
- "Front stage" (seen by the customer)

The following is needed to be incorporated:

- The plant and machineries
- Production plan
- The civil works
- Production cast plan
- The erection cast
- Business Location

**Management and Organization Plan**

The following is needed to be incorporated:

- The management team
- Academic completion
- Year of experience

**Organizational Structure:** means a skeleton that clearly depicts:

- The authority responsibility
- The pattern of Communication
- The role and accountability

**Financial Plan**

**Personal and financial statement:** reveals the personal financial information of a person who runs the business.

**The startup expenses:** all the info that is required to start the business shall be explained in financial terms

**The financial plan:** Summarizes all the information provided by the financial units.

The information needed to be incorporated:

1. *The cashflow Statement (Working Capital requirement)*

Prepare these monthly for the first year and until the firm has positive cash flow, quarterly for the next two years, and annually thereafter.

Since bills have to be paid at different times of the year, it is important to determine the demands on cash.

Remember that sales may be irregular and receipts from customers may also be spread out, thus necessitating borrowing of short-term capital to meet fixed expenses such as salaries and utilities.

2. *Fund flow statement*

3. *Projected Income Statement (Heart of the financial section of a business plan)*

A firm's pro forma financial statements are similar to the historical statements an established firm would normally prepare, except they look forward rather than past.

Prepare these monthly for the first year, quarterly for the next two years and annually thereafter.

The income statement is where a planner makes a case for the business potential to generate cash. It includes:

- Foretasted sales
- Cost of goods sold
- General administrative cost - Net profit after taxes (projected by income taxes)

4. *Projected Balance Sheet Statement*

Balance sheet shows the financial condition of the business at a specific time. It summarizes the assets of the business, its liabilities (what is owed), the investment of the entrepreneur and any partner, and retained earnings.

5. *Financial ratios like*

- a. ARR (Accounting Rate of Return)
- b. IRR (Internal Rate of Return)
- c. NPV (Net Personal Value)

6. *Payback Return*

7. *Break even Analysis*

8. *Sensitivity analysis*

**Note:** There are supplementary sections for a business plan like chances and risk and exist strategy.

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- **Quantity discount** means a reduction on the base price to encourage customers to buy in bulk which is in the form of cash or quantity.
- **Trade/Functional discount** is offered in addition to the quantity discount for all the functions intermediaries are performed on behalf of the seller (selling and promoting, warehousing, transportation, financial assistance, information and bulk breaking )
- **Cash discount** is offered by the seller to encourage credit sales collection by considering the time value of money. The seller may fix the price.
- **Cumulative discount** is offered by the seeker based on the amount of transaction the buyer has with the company.
- **Seasonal discount** is offered by the seller based upon the season of demand for the product usually seasonal discount is given during a slack period.

*Slack is a period where demand for a product is low.*

**Prospect:** a person or an organization who has the ability and capability to buy but never had any transaction with us.

In a customer life cycle depending upon the relationship it looks like the following:

1. Prospect
2. First time customer
3. Repeated customer
4. Client
5. Advocate/supporter
6. Partner

**Marketer:** a person or an organization who seek for an exchange to take place. The main purpose of a marketer is to create a demand. The various demanding situation includes :

1. Overfull Demand: demarcating strategies
2. Irregular Demand: synchronized marketing
3. Full demand: Negative Demand
4. Negative demand
5. No demand
6. Latent demand
7. Unwholesome demand

Function of market are outlined as follows:

1. Exchange fractions
    - Buying
    - Selling
    - Assembling
  2. Distribution functions
    - Warehousing
    - Transportation
  3. Facilitating functions
    - Promotion
    - Risk
    - Finance
    - Standardization
    - Grading
- In buying the company shall pursue the principles of buying which is the five rights
- Right quantity
  - Right price
  - Right quality
  - Right time
  - Right supplier

In selling the company may pursue the principles of selling which is "AIDAS" it is an acronym which stands for

- Attention
- Interest
- Desire
- Action
- Satisfaction

In Distribution we have

- **Warehousing:** fill the time gap between demand and supply and provide a time utility
- **Transportation:** fill the place gap between point of production to point of consumption and provides place utility.

### Importance of marketing

Marketing is important to the organization to individual and to the community.  
In summary the importance of marketing are

1. **Form utility:** deliver to customers the ready made product. It is associated primarily with production- the physical or chemical changes that make a product more valuable. When timber is made into furniture. Marketing aids in design choices.
2. **Possession utility:** because of the transaction marketing ownership product is transferred from the seller to the buyer
3. **Time utility (Warehousing)**
4. **Place utility (Transportation)**

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5. **Information utility:** they provide valuable information to the customer. Unless you know a product exists and where you can get it, the product has no value.

*Image utility* is the emotional or psychological values that a person attaches to a product or brand because of its reputation or social standing.

### Marketing Management Philosophies

#### Evolution of marketing

**Marketing management** means the process of planning and executing the conception pricing promoting and distribution of ideas foods or services to create an exchange that satisfies individual or group objectives.

**Production concept:** the philosophy of this concept is if we produce a product and make it available at the customers door step at an affordable price there will be no ground for customer not to buy our product. During this concept the emphasis is given to

1. Engineering side of the business
2. Maximizing the output
3. Enhancing distribution efficiency (customer needs and want are totally ignored)

It is the best concept to be applied when demand is greater than supply

**Product concept:** the orientation was if we produce a product with innovative features there will be no ground for a custom not to buy. Emphasis was given to research and development and product quality.

Product-oriented companies often design their products with little or no customer input. They trust that their engineers will know how to design or improve the product.

*Note: These two concepts fall in between mid 18th century to late 1930s.*

**Selling concept (mid 1930-mid 1960):** under this concept the orientation was to push the product from point of production to point of consumption unscrupulous sales tactics have to be used. The emphasis given were to sales management.

This concept assumes that consumers typically show buying inertia or resistance and must be coaxed into buying. Their aim is to sell what they make rather than make what the market wants

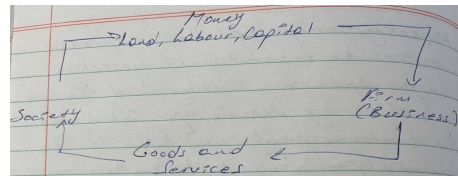
**Marketing concept (mid 1950- ):** as the competition intensifies the orientation of marketing changes and start thinking that the survival of an organization depends upon identifying the customer needs and fulfill it. The emphasis during this period were to identify and fill the customer needs.

#### Holistic marketing concept:

- **Internal marketing:** the company has to propagate the value of its customer where everybody is to respect and worship
- **Integrated marketing:** coordinating the effort of the functional unit towards meeting the customers needs in order to achieve and organizational law
- **Relationship marketing:** developing and maintaining long lasting relations with customers.

**Societal marketing concept:** holds that the organization's task is to determine the needs, want, and interests of target markets and to deliver the desired satisfactions more effectively and efficiently than competitors in a way that preserves or enhances the consumers and the society's well being.

Society act as a watch dog monitoring each and every move that the business makes. In the simple market mechanism where the household or society provide all input resources to the business and business dispose its outputs to the society. The business aims responsibility shall be to safeguard the societal well being.



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### Difference between Marketing and Selling

- |                   | Marketing             | Selling                               |
|-------------------|-----------------------|---------------------------------------|
| 1. Starting Point | Market                | Factory                               |
| 2. Focus          | Customer Needs        | Existing Product                      |
| 3. Means          | Integrated Marketing  | Selling and Promoting                 |
| 4. End Point      | Customer Satisfaction | Irrespective of Customer Satisfaction |

**Marketing information System (MIS)** consists of people, equipment and procedures to gather, sort, analyze and distribute timely and accurate information to marketing decision makers.

- **Internal Record system** provides to marketers the happened data which is the post mortem analysis's. The managers to spot opportunities or problems they receive information in regards to inventory, bills payable, bills receivable.
- **Marketing Decision Support System:** the use of hardware and software used by the company to supply accurate and timely information to managers.  
*Eg: IFMIS (Integrated Financial Management Information System)*
- **Marketing Intelligence System:** developed to gather information for managers to carry out their day to day activities.  
*Eg: talking to customers, salesman, suppliers, observing competitors perform in a trade fare exhibition, reading books, watching movies....*

### Marketing Research

It is a systematic design, collection, analysis and submitting of data in finding pertinence to the specific problem facing the company. Marketing research is objective. It attempts to provide accurate, impartial information. There are certain steps that entail marketing research:

1. Define the problem and research objective  
The research objective might be:
  - **Exploitable:** to gather a large pool of information
  - **Descriptive:** to ascertain a certain magnitude
  - **Causal:** to measure the cause and effect relationship
2. Research Design Formulation  
The research design is a blueprint for conducting the marketing research.
3. Develop research plan
4. Gather information
5. Analyze information  
Data processing includes the editing, coding, transcription, and verification of data. Data analysis, guided by the plan of data analysis, gives meaning to the data that have been collected.
6. Present the report

**Develop research plan:** calls the marketers make a decision in regards

1. Data sources:
  - **Primary data:** the information that is gathered afresh for the specific situation.
  - **Secondary data:** the data which is made by others and kept elsewhere.
2. Sampling: the decision regards:
  - **Sample Unit:** who is to be surveyed
  - **Sample Size:** How many to be surveyed.
  - **Sampling Procedures:** How the respondents are chosen.
3. Research instrument: data tools used to gather information.
  - **Questioner:** are information that contain multiple choice question to gather information
    - **Open ended Questioner:** it allows the respondent to give their opinion on the question
    - **Close ended Questioner:** all the possible answers are presented in the form of multiple choice question

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### Competitive Analysis

Competitive analysis refers to determining the strengths and weaknesses of competitors and designing ways to take opportunities or tackle threats posed by competitors.

Competition is defined as any business that provides a similar service or product in the same market, region or industry.

#### Uses of Competitive Analysis

Competitive analysis is important for businesses since it has the advantages stated as follow:

- § It helps management understand its competitive advantages/ disadvantages relative to competitors.
- § It generates understanding of competitors' past, present (and most importantly) future strategies.
- § It provides an informed basis to develop strategies to achieve competitive advantage in the future  
*(Eg. how will competitors respond to a new product or pricing strategy?)*
- § It helps forecast the returns that may be made from future investments.

**Marketing Mix=Price Mix + Product Mix + Place Mix + Promotion Mix**

#### Price Mix

Price is the amount of money consumers have to pay to obtain the product. Price has operated as the major determinant of user choice traditionally.

#### Product mix

#### Branding packaging and labeling

**Brand** means a name symbol which are used in a combination or otherwise to differentiate a single seller of a group of sellers product from competitors.

**Essential qualities of a brand name:** a brand name should be easy to catch, easy to memorize, easy to pronounce, subject to legal protection and express the product quality and benefits.

**Advantages of branding:** For high brand equity (value) the following advantages can be exhibited

1. The company is selling its product at a premium price.
  2. The company controls the flow of its product.
  3. The company has high bargaining power over its competitors.
  4. The company establishes a link to its new product and lesser marketing cost.
- **Product line** is a unique manufacturing process intended to produce a single product or alternatively a different product which has the same physical characteristics
  - **Product mix** means the total product offer that the company make available for sale

#### Branding strategy:

- **Line extension strategy** means for all the product which are produced within the same line to have a common brand name.
- **Brand extension strategy:** for all the product which are produced within the same or different product categories/line to have a common brand name.
- **Multi branding strategy:** for all the products which are produced within the same or different product category to have a unique name
- **New branding strategy:** the company introduces a new product where non of the existing brand name does not qualify the prestige and benefit that the new product has
- **Co-branding strategy:** is a rising phenomenon in branding strategy (also known as *dual branding*) that is a two well known company have agreed to use a common brand name to market their product.

#### Product mix strategy:

- **Product Positioning:** identifying and disseminating the product key distinctive features in the market in other words putting the product in the mid s of customers
- **Product Alteration/Development:** anything that we do to alter or change the existing product in terms of size, color, design, package, label etc..
- **Product Contraction:** eliminating the entire line or the assortment within the line by identifying those draining the company's profit.
- **Product Expansion:** increasing the number of product line or mix to have a broader market coverage.

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**Trading up** means adding a superior quality product in the company's current product offer to reach out to the upper class people to have a broader market coverage

**Trading down** adding an inferior on flanked product to the company's current product offer to reach out to the low class people to have a broader market coverage

**Packaging** is the process of developing a wrapper or a container is called a package. There are two different types of package

1. **Consumer Package:** are designed to create an appeal to customers. They are classified into three:
  - **Primary package:** actually holds the core product
  - **Secondary package:** holds the primary package
  - **Shipping package:** uses to transport goods from point of production to point of consumption
    - **Advantage of consumer product**
      - To create an appeal
      - As an information tool
      - As a dummy salesman
      - For promotion (Advertising Tool)
2. **Industrial package:** are used to move the product safe and sound from point of production to point of consumption. The widely used industrial packages are
  - Containerization: the use of metal boxes in cargo handling system (loading and unloading) to move large sim of product from production to consumption
  - Palletization: the use of pallet in t cargo handling system where goods are mounted on top and wrapped
  - **Advantage of industrial package**
    - To safeguard the product : from theft, pilferage and physical damage

**Labeling** means there are 3 different labels. It is art of product that carries verbal information about ch product of the seller. The essence of a label is expository by nature.

- **Brand Label:** no other info in the product package offer than the company brand name
- **Grade Label:** no other info than the product grade. A product is graded as A,B,C or 1,2,3 based on the standard.
- **Descriptive Label:** provides a detail information about the product it includes illustrations, precautionary methods, nutritional values, composition of a product etc.

#### Product Life Cycle

The performance of a product over an extended period of time in terms of sales and profit.

There are four stages in the product life cycle where each requires a separate strategy

1. **Introduction stage:** customers are hesitant to buy and as a result sales is low profit is low demand is low. Company spends substantial amount of money on promotion. The objective of promotion is to build the primary demand
2. **Growth stage:** is characterized by market acceptance stage. As a result sales increases at an increasing rate and profit start flourishing. Company still spends substantial amount of money on promotion. The promotional expenditure per unit of sale is decreasing. Promotional objective is to build a selective demand. At the end of this stage sales begin to decline
3. **Maturity stage:** is characterized by sales increases at a decreasing rate. Stiff competition. Companies without differential advantage are compelled to leave the market. The company shall pursue marketing mix modification and advanced technology.
  - Product:
    - Size
    - Package
    - Distribution: encourage middle men to carry out your stock
    - Promotion: cut promotional expenditure usually used outdoor advertising
  - Design
  - Price: Cut Price, offer Discount
  - Color
4. **Declining Stage:** in this stage the exhibited characteristics are
  - Frustrated Customers in using the product
  - Product is outdated as a passage of time

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#### Physical distribution

Physical distribution which synonymously used to refer to moving the right amount of goods at the right time at the right place.

**Note:** From US GDP about 1/3 is for Physical Distribution

Tasks of physical distribution

1. Order processing
2. Inventory location and warehousing
3. Inventory control
4. Material handling and packaging
5. Transportation

There are four different types of transportation

1. Land: rail and road
2. Water-ocean and inland
3. Air
4. Pipeline

Factors affecting the transportation mode

- Cost
- Product nature (perishable and non perishable)
- Speed
- Geographical location

**Inventory Control:** maintaining the stock keeping items be it raw materials, work-in process, finished goods, maintenance and repair and operating supplies (MRO) at a desired level

The object of inventory is to avoid over and under stocking situation as both situations have consequences.

**Motive for holding inventory:** There are three motives the company has to maintain an inventory

1. Speculative Motives
2. Transaction Motives
3. Precautionary Motives

There are two costs we pay when maintaining inventory

1. **Ordering cost:** which remain fixed irrespective of the level of output
2. **Carrying cost:** the cost that is paid to maintain one units of inventory per annum. The two coats are inversely related. The two soars will be equal at **Economic Order Quantity (EOQ)**

$$EOQ = \sqrt{\frac{2AO}{C}}$$
 Where,
  - A= Annual consumption
  - O= Ordering cost per order
  - C= Carry cost of inventory per year

I= Inventory carry cost as expressed as a percentage rate of purchase price

#### Technique of maintaining inventory

1. EOQ
2. JIT (Just in Time) or Kanben in Japanese
3. Inventory levels
4. Perpetual Inventory (Continuous Controlling)
5. Inventory turnover ratio
6. ABC analysis

#### Promotion / Communication Mix

Communications derives from the Greek word *communicare* which means sharing information in common. It means passing of information from the sender to the receiver by message being understood by the receiver.

It is a means by which people are linked in an organization.

In the communication process

- **Major Parties:** Sender and Receiver
- **Major Tools:** Message and Media
- **Major Functions:** Encoding, Decoding, Response, feedback and Noise.
- **Starting Point:** Idea

Promotion (Marketing Communication) means activities that communicate the merits of the product and persuade target customers to buy it.

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- Product need maybe supplement with new and advanced technology

Marketing Strategy must be diversification

#### Place Mix

The place element of the marketing mix is about getting the goods or services to the right place at the right time for the customer. This mainly gives emphasis for the distribution of the product. The purpose of distribution is to move the right amount of the right products using the right channel to the right place to the right time.

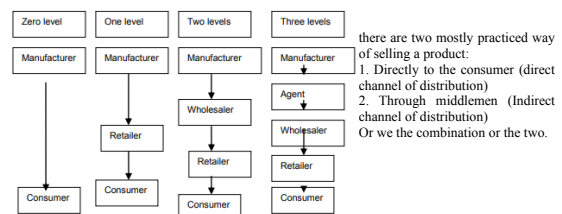
#### Channels of distribution

Channel of distribution means the host of intermediaries which are involved in the transfer of ownership as the product moves from point of sales to point of consumptions. There are two types of channels:

1. Direct channels: the company handles its distribution without involving intermediaries.
2. Indirect channels: the company handles its distribution with the help of intermediaries.

Factors affecting choice of channels: there are certain factors affecting the channels choice.

1. Product nature:
  - Unit value of the product.
  - Technical nature of the product
  - Degree of customization
2. Market consideration
  - Market size
  - Geographical location of the market: concentration and dispersion
3. Middle man consideration
  - Availability of a middleman
  - Service provides by a middleman
  - Middleman's acceptance of company policy
4. Company consideration
  - Desire to control
  - Marketing expertise
  - Financial capabilities



there are two mostly practiced way of selling a product:

1. Directly to the consumer (direct channel of distribution)
2. Through middlemen (Indirect channel of distribution)

Or we the combination or the two.

#### Types of channels

##### 1. For consumer goods

Producer → Agent → Whole Seller → Retailer → Customer

Producer → Whole Seller → Retailer → Customer

Producers → Retailer → Customer

##### 2. For industrial goods

Producer → Industrial Distributor → Industrial Buyer

Producer → Agent → Distributor → Buyer

##### 3. Service: producer to the end user and producer to agent and agent to the user

Producer → End User

Producer → Agent → End User

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Promotional mix consists of the following four major tools:

**Advertising media:** it is a option that are used to disseminate the advertising message.

1. Indoor Advertising Media: user is exposed while they are inside. Further classified as:
  - **Broadcast:** Radio, Television, Cinema, Video
  - **Press:** Magazine, Trade journals, Newspaper, Trade directory

2. Outdoor advertising media: these are the media where the user is exposed while they are outside. These are the low cost media which are usually used for matured product.

- Vehicular Ad
- Prisms vision
- Direct mail is the most selective of all other media's. It include:
  - Agenda
  - Brochures
  - Saucer
  - Posters
  - Billboard
  - Umbrella
  - Electrical signs
  - Hoarding
  - Price list
  - Pamphlets
  - Ashtray
  - Sky advertising
  - Catalog
  - Apron
  - Pens

**Personal selling:** oral presentation in conversation with one / more consumers for the purpose of making sales

**Sales promotion:** includes gifts, games, sampling, coupons, and window displays.

**Publicity:** any information about the organization, its personnel or its products that appear in any medium on a non-paid basis.

#### Types of personal selling

Personal Selling means a face to face interaction with ultimate as well as potential customer for the purpose of selling the company goods or services.

According to McMurry, he classified the sales job in terms of whether the sales job is primary or secondary. Accordingly they are classified as:

1. **Drivers Salesman:** undertake both (drives, sales) activities whose sales job is secondary.
2. **Counter Salesman/Inside order taker:** these are the sales person, the need on the customer who is predetermined to buy, the sales job is secondary.
3. **Outside order taker:** the type of Soles man who pays a visit in the company established customer receive an order.
4. **Missionary Salesman:** These are goodwill ambassador of the company who neither sale nor solicit an order.
5. **Sales Engineer:** the type on sales men that assist wherever technical issue is raised by the customer.
6. **Creative Salesman (order getter):** who devoted his 100% of time on sales changing patterns of personal selling.

1. **Team Selling (Selling Center):** allowing non selling staff in the company promotional campaigns
2. **System Selling:** Selling the total bundle of the product (goods, services and ideas) as a single package to save the customer time.
3. **Relationship Marketing:** developing and maintaining a long lasting (50/50 or Win-Win) relations with customers overtime.
4. **Telemarketing:** the use of telecommunication to solicit an order from customers.

#### Process of personal selling

- **Prospecting:** identifying and profiling the potential customers who have the ability and capability to buy.
- **Pre-approach:** here learning in advance, the likes & preferences, the buying patterns, the credit worth-ness and other relevant information about the prospect.
- **Approach:** approaching in the premise of the prospect to fix an appointment.
- **Presentation:** delivering the sales message on the date of appointment to the prospect.
- **Meeting objective:** whatever objection might have been raised the sales person has to convince the prospect to buy the product.
- **Close the sale:** make an agreement with prospect and end sales.
- **Follow Up:** monitor the satisfaction or dissatisfaction levels of the customer after sales.

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## Entrepreneurship (CC399) Chapter 6: Financing a New Venture Short Note

### Balance Sheet / Capital Structure

Asset	Liability
- <b>Fixed Asset</b>	- <b>Long term Liability</b>
- Land and Building	- Equity Share
- Furniture	- Preference Share
- Fixtures	- De-ventures
- Motor Vehicles	- Long term Loan
- Computer	- <b>Current Liability</b>
- <b>Current Asset</b>	- Bills Payable
- Cash	- Salary
- Prepaid Expenses	- Short Term loan
- Bills Receivable	- Outstanding Payments

**Balance sheet:** a statement that shows the capital structure of an organization by segregating the items as assets and liabilities. It shows a firm's financial position at a specific date.

**Asset:** the wealth of an organization **Liability:** an obligation that a firm has to owe.

It is a best practice to keep *Asset : Liability* at 2:1 or else if:

1. Asset < Liability there will be liquidity shortage
2. Asset = Liability there will be financial equilibrium

**Assets** are classified as:

1. Fixed Asset: those that return their value in the long run. These are the relatively permanent assets that are intended for use in the business rather than for sale.
  - **Tangible fixed assets:** These include assets like building, machinery, equipment, and land-including mineral rights, timber, and the like.
  - **Intangible fixed assets:** including patents, copyrights, good will.
  - **Fixed security investments:** These include stocks of subsidiaries, pension funds, and contingency funds.
2. Current Asset: that are converted into liquid cash within a period of one year.
  - **Inventory:** stock keeping items be it raw material, work in process/Semi-finished goods, finished goods and maintenance, repair and operating supplies (MRO)
  - **Prepaid expenses:** these are paid in advance for the next year
  - **Bills receivable:** these are the outstanding income to be collected for debtors for the item sold on a credit.
  - **Marketable securities:** these are when the company makes an investment for a short period of time. Eg: National Bank of Ethiopia saving in other Banks

### Liabilities

1. Long term liabilities: those obligations that the company has to meet in the long run. These includes:
  - **Equity capital/share:** long term obligation that the firm has to meet by issuing a share certificate to potential share holders. The equity shareholders are the owners of the organization where they have agreed to bare the loss and enjoy the profit. The main purpose is to maximize the wealth of its equity shareholders. Preference shareholders: have preference rights over the equity shareholders of the time of dissolving the business.
  - **De-ventures:** are creditors that supply materials to the organization.
  - **Long term loan:** the money secured from financial institutions like IMF, Development Bank or WB

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**Note:** Share Certificate has vote capabilities therefore the higher your share the more your voice matters.

Failing to pay full share requirement results in forfeiting (cancellation)

2. Current Liability: Short term obligation that the firm has to meet in a period of one year.
  - **Bills payable:** the amount of money that the company has to owe to its creditors.
  - **Bank overdraft:** the amount of money the bank has to issue to its client over and above the money that they have in their current account.
  - **Current account:** the type of account that the bank provides to its customer which is not an interest bearing account. (last as a treasure)
  - **Fixed account:** the account that has been kept by a bank for a fixed time period with the bank. The bank pays high percentage of interest if complied with the agreement.
  - **Saving account:** an interest bearing account where the bank obliges to pay on the outstanding amount.

### Capital

Initial capital consists of *owner capital* and *creditor capital*.

Traditionally it is said that owner capital in a new firm should be at least two thirds of the total initial capital.

### Working Capital

The excess of current asset over current liability. There are 2 types:

1. **Permanent working capital:** that is required to meet fixed chart. Example: Salary.
2. **Temporary working capital:** that is required to meet the opportunity (peck demand).

Working capital includes: cash, receivables, inventories, and marketable securities.

- Accounts and Notes Receivable: occur when sale made on credit and it is payments due from its customers.
- Inventories: Finished and stored goods to be sold.

**Cost:** It means the amount of money incurred or to be incurred.

Cost can be classified based upon their nature:

1. **Direct cost (Prime Cost):** those costs that have a direct relationship towards the conversion of raw materials into finished goods.
  - Eg: Direct material cost, direct labor cost, direct expenses
2. **Indirect cost (Overhead Cost):** those costs that provides an auxiliary service that is supporting service towards the conversion of raw materials into finished goods.
  - Eg: A. Carriage Outward: transportation cost bare by the company to deliver the goods at the customer doorstep.
  - B. Carriage Inward: transportation cost bare by the company to bring goods to the factory.
  - C. Return Inward (Sales Return): these are goods sold to customer and returned back to the company being rejected.
  - D. Return Outward (Purchase return): these are goods returned by the buyer being rejected.

Cost can be classified based on variability:

1. **Fixed Cost:** remain fixed irrespective of the level of output, however as the level of output increased the fixed cost per unit decreases.
2. **Variable Cost:** those cost varies based on the level of output.
3. **Semi-variable Cost:** remain fixed up to certain level of output but varies there after.

**Note:** Bootstrapping is company financing using discounts.

Equity is less risky compared to a company.

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**Expense:** this means the expired cost

**Dividend:** the interest to be paid for the shareholders for the share certificate which has been acquired

**Interest:** is the money being paid by the bank for the amount deposited by a person.

**Collateral:** the timeable asset to be surrendered by the bank for the money loan to be granted by it.

### Source of Financing

- Own Saving
- Family
- Equity Financing
- Crowd Funding
- Leasing
- Venture Capitalist
- Financial Institutions
- Bootstrapping
- Collateral

The following are other sources of funds for long term capital needs of the going business.

#### A. Retained Earnings

Realized profits that are plowed back into the business, or retained earnings, constitute a major source of funds for financing small business expansion. Financing through retained earnings provides a conservative approach to expansion. The dangers of over expansion or expansion that is too rapid are largely avoided.

#### B. Sale of Capital Stock

A second source of expansion capital is available through the sale of capital stock to outsiders.

### Investment Valuation

Traditional Methods of Investment Valuation

- Payback Period Method
- Return-on-Investment Method: evaluates proposals by relating the expected annual profit from an investment to the amount invested.

This method is expressed in the following equation:

$$ROI = \text{Annual profit} / \text{Investment}$$

### Weaknesses of Traditional Methods

- Fail to recognize the time value of money -
- A simple rate of return method gives no indication of the length of time

### Techniques of Financial Evaluation

Keeping Accounting Records: should provide information on;

- **Assets,** including real estate, equipment, inventory, receivables, and cash.
- **Liabilities** to banks, suppliers, employees, and others.
- **Owner's equity** in the firm.
- Sales, expenses, and profit for the accounting period.
- Objectives of an Accounting System

### Methods of recording system in accounting

- In a *cash system*, the accounts are debited and credited as cash is received and paid out.
- In the *accrual system*, income earned and expenses incurred are recorded at the time the sale made or the expense is incurred - this provide accurate and up-to-date statement of profits.

### Types of Accounting Records

- **Accounts Receivable** – implies effectiveness of the firm's credit and collection policies.
- **Accounts Payable** - Records of liabilities show what the firm owes,
- **Inventory Records** – Ensure adequate stock levels, and computation of turnover ratios.
- **Payroll Records** – show the total payments to employees
- **Cash Records** – yield a knowledge of cash flow and balances on hand
- **Other Records** – insurance, other business investment

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## Entrepreneurship Short Note

### Chapter 7: Managing growth & transition

Starting a business is one things and sustaining is another.

**Opportunity** means an area of buyer need where the firm serves profitably.

**Threat** means an unfavorable condition impose to a business that deteriorate its ability to make profit.

**Acquisition:** buying the existing company.

**Mergers:** Voluntary agreed to enjoy the asset and share the liability by to forming a new amalgamate business.

**Green field operation:** setting a business from scratch scratch.

**Brown field operation:** acquiring or leasing a warehouse near to the port for strategic advantage.

**Licensing:** means issuing a trademark, a patent right or manufacturing system to the licensee for a royalty. There are 3:

1. **Management contract:** the licensor hes pred to manage the licensing business for a royalty, but it prohibits the licensor to compete with licensee.
2. **Contractual Manufacturing/Outsourcing:** the licensor issues the trademark on manufacturing system to the licensee tor a royalty.
3. **Franchising:** a complete form of l licensing where the franchiser issues the total brand concept and manufacturing system.
4. **Strategic Alliance/Partnership:** an agreement between 2
  - Simple Licensing Agreement (Sony-Erickson)
  - Distribution
  - Production
  - Production and Distribution

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