

Unit IV

The Entrepreneurial Journey

Feasibility Analysis

Idea assessment the process of examining a need in the market, developing a solution for that need, and determining the entrepreneur's ability to successfully turn the idea into a business.

- It is an analysis of the viability of a business idea that includes four interrelated components

Industry and market analysis

Product or service analysis

Financial analysis

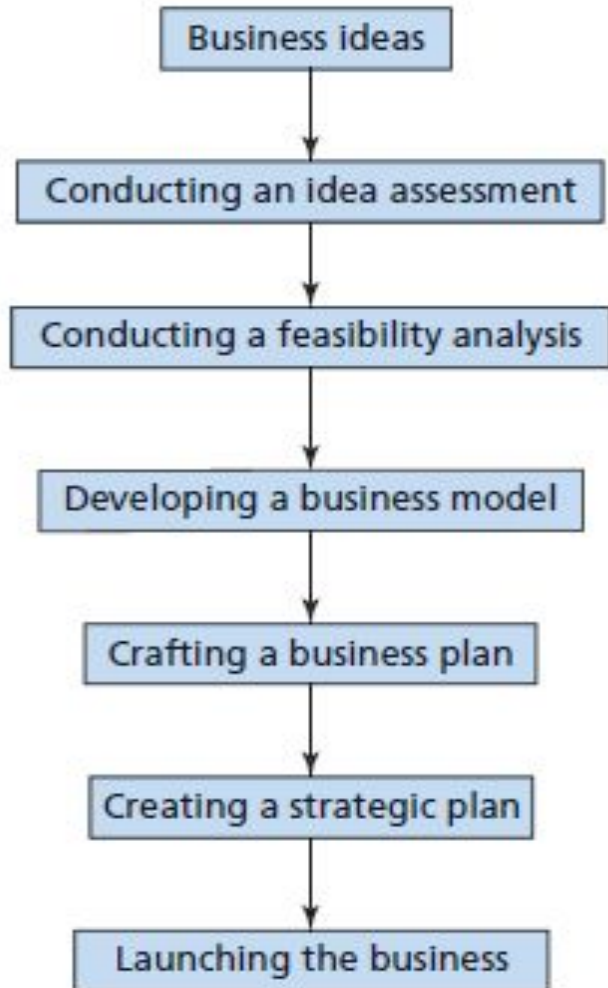
Entrepreneurial analysis

Insects in Energy Bars

- Patrick Crowley introduced his energy bars, called Chapul, as a means to offer an environmentally friendly source of protein to customers.
- Through his research, Crowley discovered that crickets are 10 times more efficient than cows or pigs at turning vegetable matter into protein.
- Crowley partnered with a friend who is a chef to develop a recipe for energy bars using cricket flour and had the bars approved by the Food and Drug Administration.
- Crowley ran a Kickstarter campaign that raised enough money to make 2,000 bars, which sold quickly through online and retail sales.
- Based on his early success, Crowley contracted with a company to make larger batches of the bars. Chapul cricket bars are sold in 75 stores, and Crowley is negotiating with larger national chains including Whole Foods.



New Business Planning Process



Idea sketch pad

The Really Big Idea Sketch Pad v2.

These are the parameters to change when creating or refining a venture or project idea. Think of it as sketching your idea.

name of this idea: _____

Who are the people involved in starting this venture?

What relevant experience do they bring to the table?

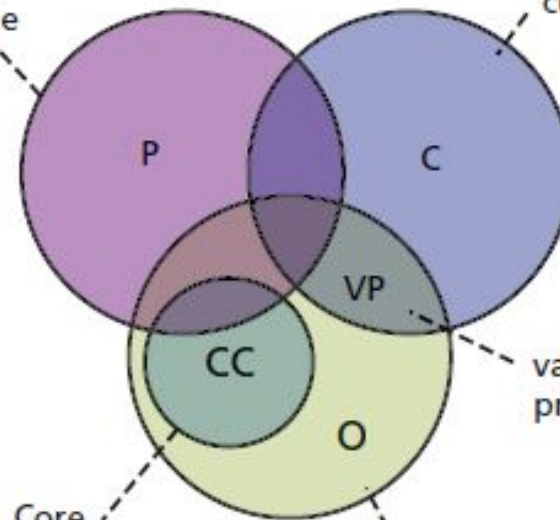
What specific knowledge do they bring to the table?

directions

1. Write the answers to each question on Post-It Notes.
2. Put them on the sketchpad in the marked areas, e.g.
3. If you don't have enough room, then simplify.
4. Assess your idea using the "really big idea critique pad".
5. Repeat and replace Post-Its liberally.

Do you have any core, differentiating competencies, such as a technology or science?

people



customer

value proposition

Core competency

offering

Who is the user or beneficiary?

How does the user use your offering?

Who is the economic buyer or decision maker?

How many buyers are there?

Why is the offering important to the user?

Why is the offering important to the buyer?

What type of offering is envisioned? I.e. commodity, good, service, or experience?

Name and describe it...

Sketch it or otherwise help people visualize it ...

Idea Sketch Pad

The parameter is needed when we creating our venture of Recast Artistry LTD

Name of this idea:

Recast Artistry LTD.

The people involved in starting this venture

Md. Sovon Khan Ovi
Jahid Khan Rahat
Mujahidul Islam

people

Sovon- Product Designer
Jahid- Accountant
Mujahidul- Customer Service

The relevant experience that we have

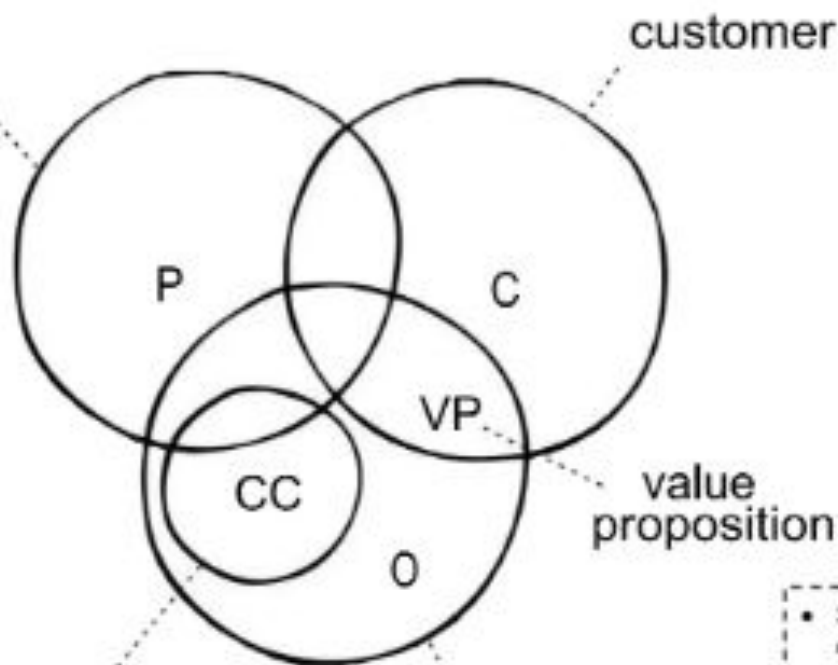
Sovon- Graphics Designing
Jahid- Budgeting
Mujahidul- Marketing Manager

The specific knowledge we have regarding the business

core competency

Using expert graphics designer for designing unique decoration product as well as computer software for designing the product.

Differentiating competencies of our business



The user or beneficiary of our

Both Males and Females

The user uses our offering

To decorate office, home, garden and car etc.

- Working man and woman
- Teenagers

Countless in Numbers

The economic buyer or decision maker

The number of buyers of our business

value proposition

Reason behind the offering is important to the user

- Smart ways of decoration
- Easy to carry
- Save time while decoration

Reason behind the offering important to the buyer

- Premium design
- High durability
- Beautiful Showpiece
- Traditional handcraft

offering

A goods- we provide the interior decoration products

The Types of offering

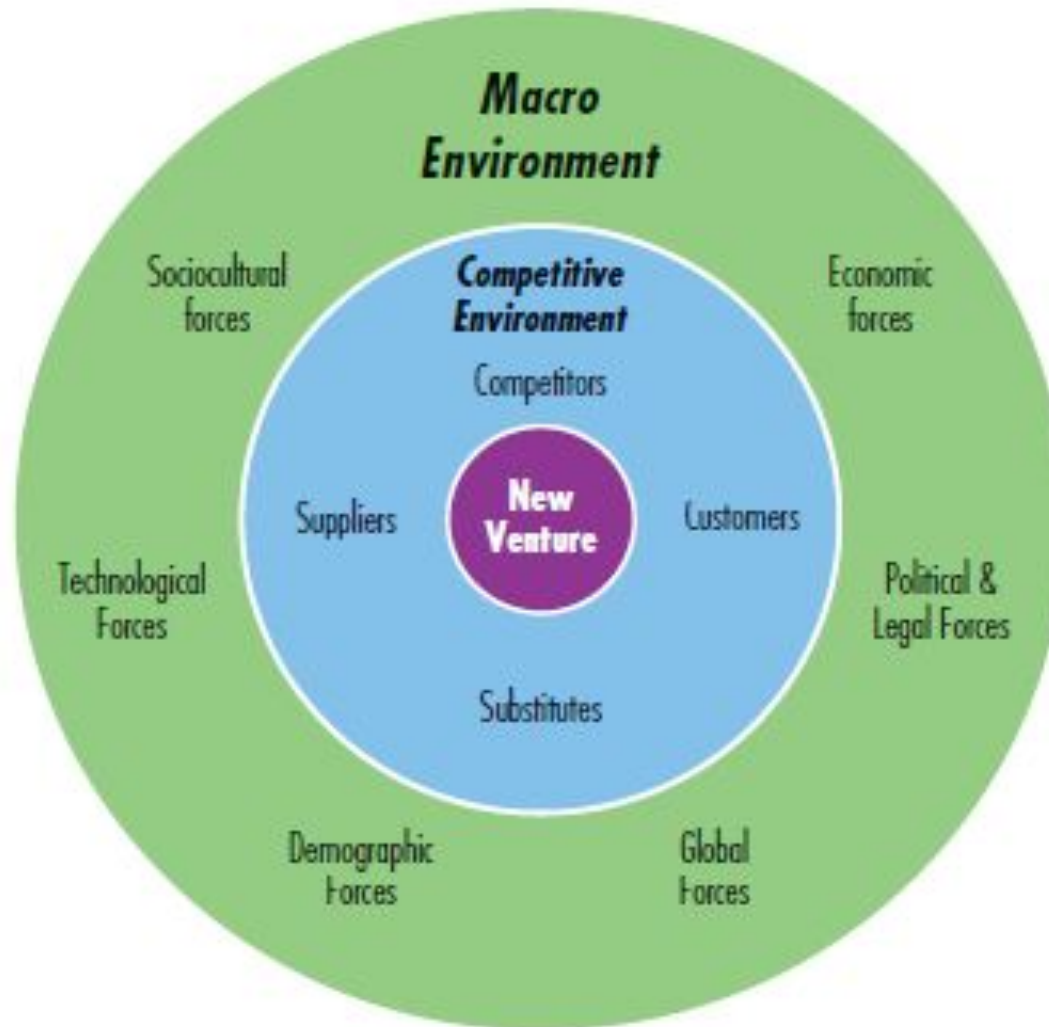
- Decorate office interior
- Decorate home interior
- Decorate car
- Use as furniture

Description of product

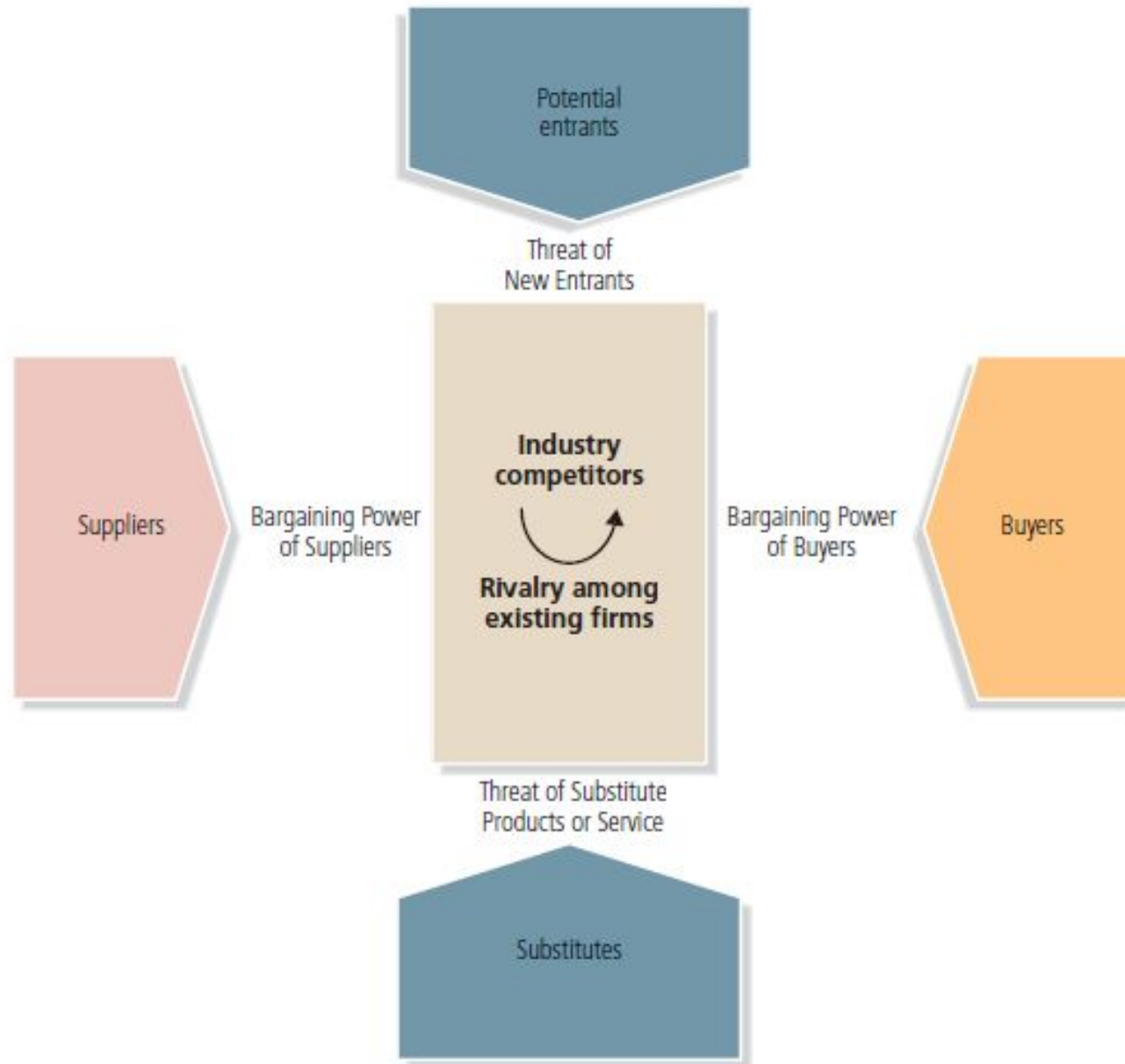


Visualize product

Environmental Forces and New Ventures



Porter's Five Forces Model



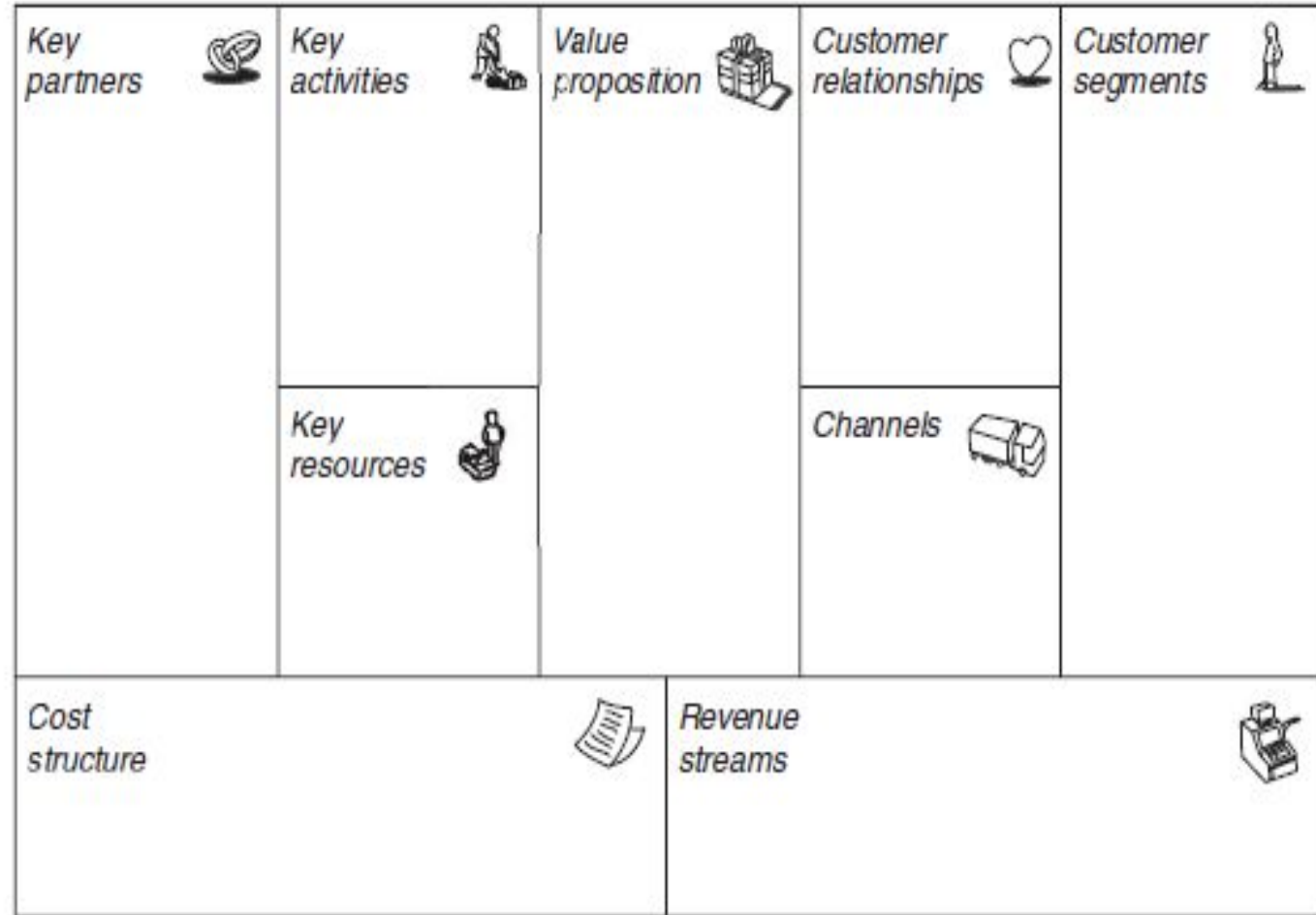
Aspire Beverages – New entrants

- **Jesse Parker and John Montague** - The market for sports drinks has been dominated by two major brands, Gatorade and PowerAde.
- new competitors are entering the market due to growing concern that the major brands contain high-fructose corn syrup, artificial coloring, and other unhealthy ingredients.
- Jesse Parker and John Montague, two self-described hockey dads, launched Aspire Beverages to compete in this well-established market with a healthier alternative.
- As parents, they were concerned about the unhealthy ingredients their children were consuming with the sports drinks they drank.
- The Minneapolis-based company promotes its drinks as having no artificial sugars, artificial colors, or artificial flavors.
- Distribution of Aspire is through traditional retail outlets such as grocery stores, so it is competing for shelf space with the major national brands.

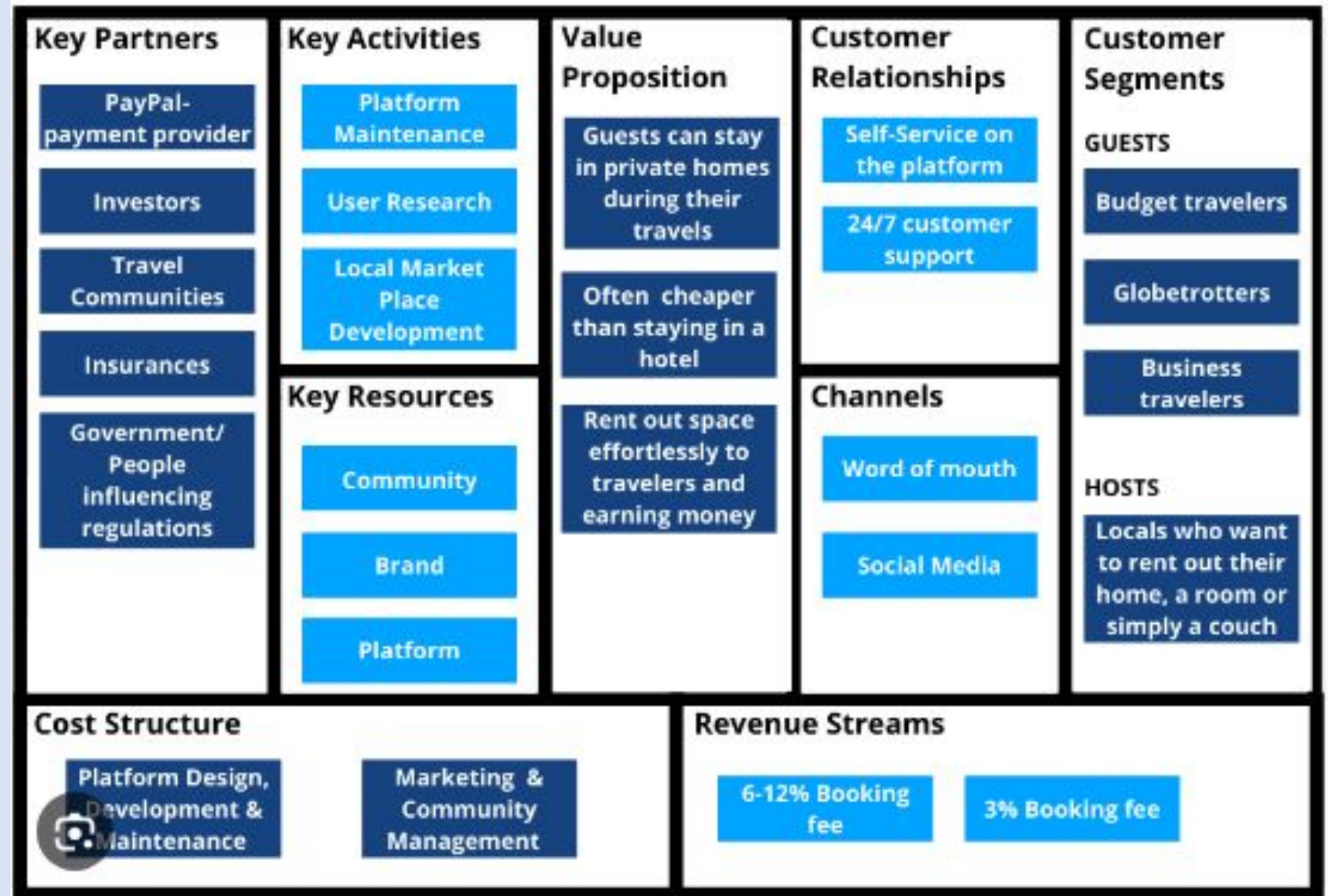


The Business Model Canvas

- The Business Model Canvas is a strategic management template used for developing new business models and documenting existing ones.
- The business model canvas is a tool designer's use to map out a business or product's key actors, activities and resources, the value proposition for target customers, customer relationships, channels involved and financial matters.
- It gives an overview to help identify requirements to deliver the service and more.



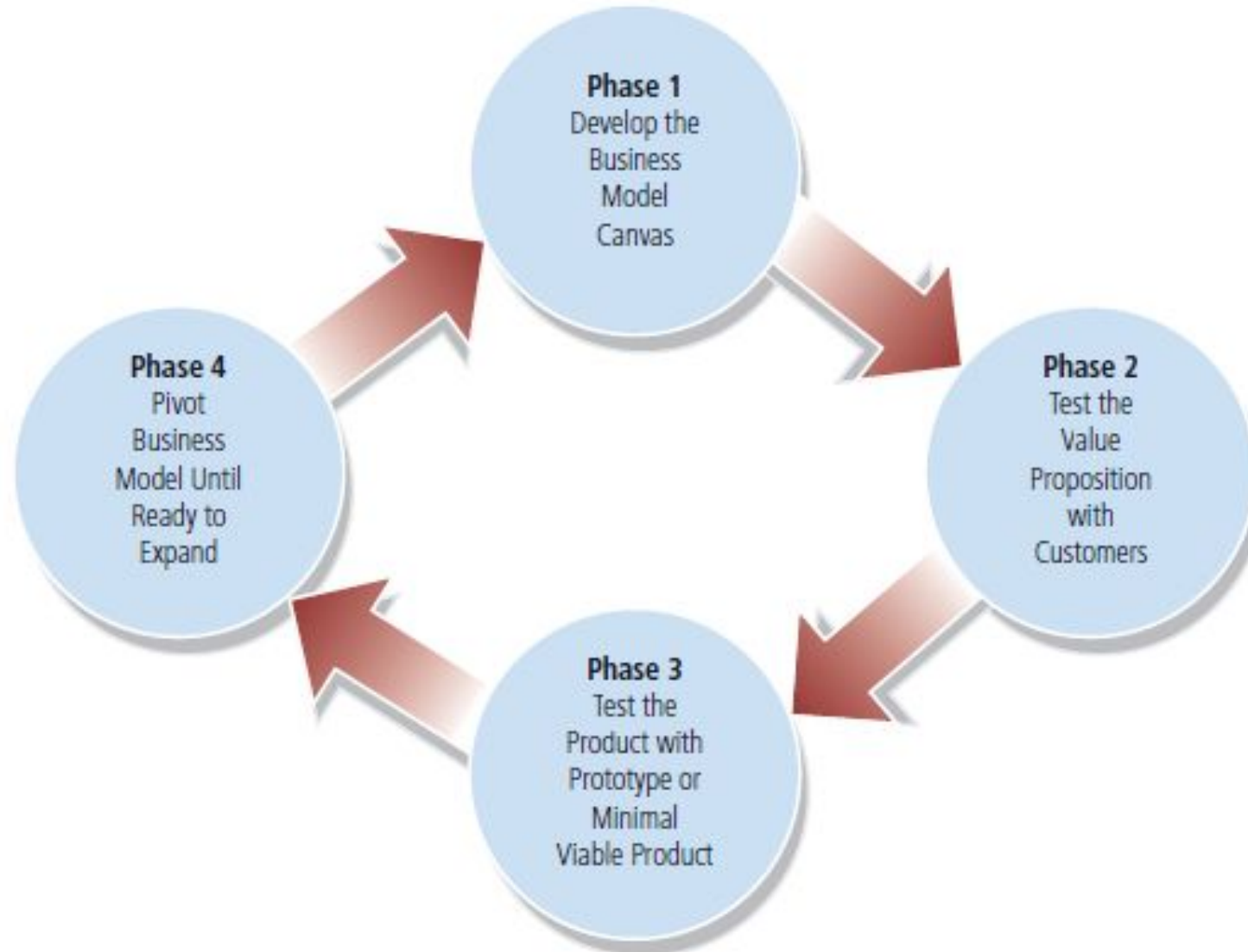
The Business Model Canvas



BUSINESS MODEL CANVAS - ZARA

<p>● KEY PARTNERS</p> <p>Providers</p> <p>Holding company (Inditex)</p> <p>8</p>	<p>● KEY ACTIVITIES</p> <p>Design Manufacturing Retail process (point of sale & 3rd party management) Distribution channels and logistics</p> <p>● KEY RESOURCES</p> <p>Stock</p> <p>Large network of stores</p> <p>Strong brand Logistics and supply chain infrastructure</p> <p>8</p>	<p>● VALUE PROPOSITIONS</p> <p>Fashionable clothes</p> <p>Accessories</p> <p>Great eCommerce experience</p> <p>Flagship store experience</p> <p>Fast-fashion</p> <p>2</p>	<p>● CUSTOMER RELATIONSHIPS</p> <p>Salesperson at store Brand through social media Sentimental attachment to clothing/accessories</p> <p>● CHANNELS</p> <p>Direct store</p> <p>Online</p> <p>Social media</p> <p>3</p>	<p>● CUSTOMER SEGMENTS</p> <p>Men</p> <p>Women</p> <p>Children</p> <p>1</p>
<p>● COST</p> <p>Fixed (rent, payroll, etc.) Variables associated with sale of goods</p> <p>9</p>			<p>● REVENUE STREAMS</p> <p>Sales of clothing and accessories</p> <p>5</p>	

The Business Modelling Process



Crafting a business plan

- Business plan is a written summary of an entrepreneur's proposed business venture, operational and financial details, market opportunities, strategies, and managerial skills and abilities.

- It functions primarily as a planning tool and offers:

Systematic realistic evaluation of the proposal

A way to determine the important risks

A game plan for managing the business successfully

A tool for comparing the results – actual v/s target

A tool to attract capital

Benefits of a business plan

- Entrepreneur's roadmap toward building a successful business
- Describes the direction in which the business should move
- It provides – mission, goals, objectives, budgets, forecasts, target markets, entry level strategies
- It provides one last test of reality before launching the business
- It attracts lenders and investors
- Ability to repay loans and produce attractive rate of return
- Risk evaluation

External funding

The checks for external funding:

- Reality test – prove there is a market for the product, strong demand for the business idea
- Competitive test – company's relative position to the competitors, strengths and weaknesses
- Value test – high probability of repayment, attractive returns for the lent amount

Elements of a business plan

- **Title page and table of contents** – title, company name, logo, address, names, contact information
- **The executive summary** – concise, max 1 page, one should be able to understand entire business concept, briefly describe owners, key employees, target, financial highlights, loan requests, use of funds, repayment
 - Elevator pitch – context (What does your company do), benefit to customers, target customer, point of differentiation, Clincher (bottom line words)
- **Mission and vision statement** – not more than 25 words

Executive Summary – Bio Tech Company Example

Need for rapid detection of new water contaminants

The Problem

Wide range rapid (<15min) field Xyz test kits

Our Solution

EU, 100 million tests executed annually

The Market

3 main competitors – X.Y.Z Slower, less sensitive.

Competition

Water biology experts. 60 years of combined experience.

Who we are & Achievements

Leasing testers, selling reagents.

Business model

6M US\$ in 5 years. 5th year – GP = 55%, OP = 18%.

Financial & ROI

2M US\$ for new kit R&D 15% equity shares.

What we need & our offer

Elements of a business plan

- **Description of a firm's product or service** – overall product line, how to use the products, drawings, illustrations, service descriptions, patents, trademarks or copyright protection, avoid 'fall in love with your product' syndrome.
- **Business and industry profile** – about the industry, its competitors, key trends, market size, economic and competitive strength of the company, strategic issues, cyclic or seasonal economic trends.
- **Competitor analysis** – how will the chosen business strategy position the company effectively against the competitors, assessing the competitors, how well they are meeting the required criteria, advantage over the competitors
 - ✓ Who are the key competitors?
 - ✓ what are their strengths and weaknesses?
 - ✓ what are their strategies?
 - ✓ Their image in the market
 - ✓ how successful they are?
 - ✓ distinguishing feature

Elements of a business plan

- Market entry strategy – how to attract customers, gain a competitive edge
- Marketing strategy - Proving that a profitable market exists involves two steps: showing customer interest and documenting market claims
- Entrepreneurs' And Managers' Résumés - plan should include the résumés of business officers, key directors, and any person with at least 20 percent ownership in the company. This is the section of the plan in which entrepreneurs have the chance to sell the qualifications and the experience of their management team. Lenders and investors prefer experienced managers.

Elements of a business plan

- **PLAN OF OPERATION** - To complete the description of the business, an entrepreneur should construct an organization chart identifying the business's key positions. Plan of operation should also describe how the business operates, including space requirements, inventory management if applicable, staffing plans, and accounting processes and policies.
- **PRO FORMA (PROJECTED) FINANCIAL STATEMENTS** - An entrepreneur should carefully prepare projected (pro forma) financial statements for the operation for the next year using past operating data (if available), published statistics, and research to derive forecasts of the income statement, balance sheet, cash forecast and a schedule of planned capital expenditures.

Business plan – an example

the

ジョンユア

ANIME

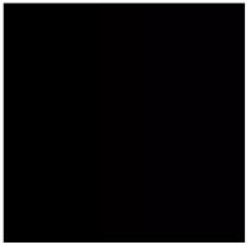
STORE

BUSINESS

PLAN

SECTION 2 PERSONAL DETAILS

THE PROPONENTS



RAMIL JOSHUA B.

BERNARDO

He was born in May 29, 2000 in Jose Fabella Hospital, Manila. His parents are Ramelo I. Bernardo and Lorna B. Bernardo. He is currently studying as a Grade 9 student in Muntinlupa Business High School. In the future, he will be a successful cartoonist for being good in drawing and sketching.



LEODIGARIO CORONEL

SECTION 1 EXECUTIVE SUMMARY

Anime are Japanese animated productions featuring hand-drawn or computer animation. The word is the abbreviated pronunciation of "animation" in Japanese, where this term references all animation. In other languages, the term is defined as animation from Japan or as a Japanese-disseminated animation style often characterized by colorful graphics, vibrant characters and fantastic themes. Arguably, the stylization approach to the meaning may open up the possibility of anime produced in countries other than Japan. For simplicity, many Westerners strictly view anime as an animation product from Japan.

SECTION 3 OVERVIEW OF THE BUSINESS

Muntinlupa's leading anime store brings you the finest products which are Filipino-made with quality materials. We sell anime-influenced products like anime comics/magazines, pins, laces, and stickers. Founder Joshua Bernardo saw Filipino's endless support to anime through those stuffs. We believe that in anime, simple things turn to extraordinary.

Business plan – an example

THE NEEDS

The information below shows the problem/need of the business plan based on the gathered data.

1. IN-DEMAND ANIME STUFFS

Because of high demand of anime-related stuffs, our shop is open to bring you the finest products.

2. WEARABLE ANIME ACCESSORIES

Accessories tend not to be wearable if its designs don't look good with the

VISION: *"We envision students satisfied with the greatness provided by anime in a fashionable way."*

Through our shop, we can see that students of MBHS and other customers will enjoy the greatness from anime.

MISSION: *"To provide fun, excitement and joy through the assortment of anime stuffs and accessories."*

Business plan – an example

MARKETING PLAN

The information below shows the marketing plan A, B, and C based on the product concept and data gathered. It includes the features of the product or service, the target audience and the marketing strategies.

MARKETING PLAN A

Product

The product we want to implement is about Anime stuffs and accessories. These are Comics/Magazines, ID laces, pins, and stickers. All are with customized designs.

Target Market

The products are to be sold to:

MBHS Students from lowest level to highest, with age range of 12-16 years old, and who love anime stuffs and accessories.

MBHS Teachers who work for the school at the faculty and who are interested to anime stuffs and accessories.

Anime Fans who are outside-the-school customers and who really love anime stuffs

Business plan – an example

Competitors



Comic Alley

Comic Alley is the no. 1 Anime Shop in the Philippines. It is the largest anime shop with more branches nationwide. It is open Monday to Sunday, 10:00am-9:00pm.

Pricing

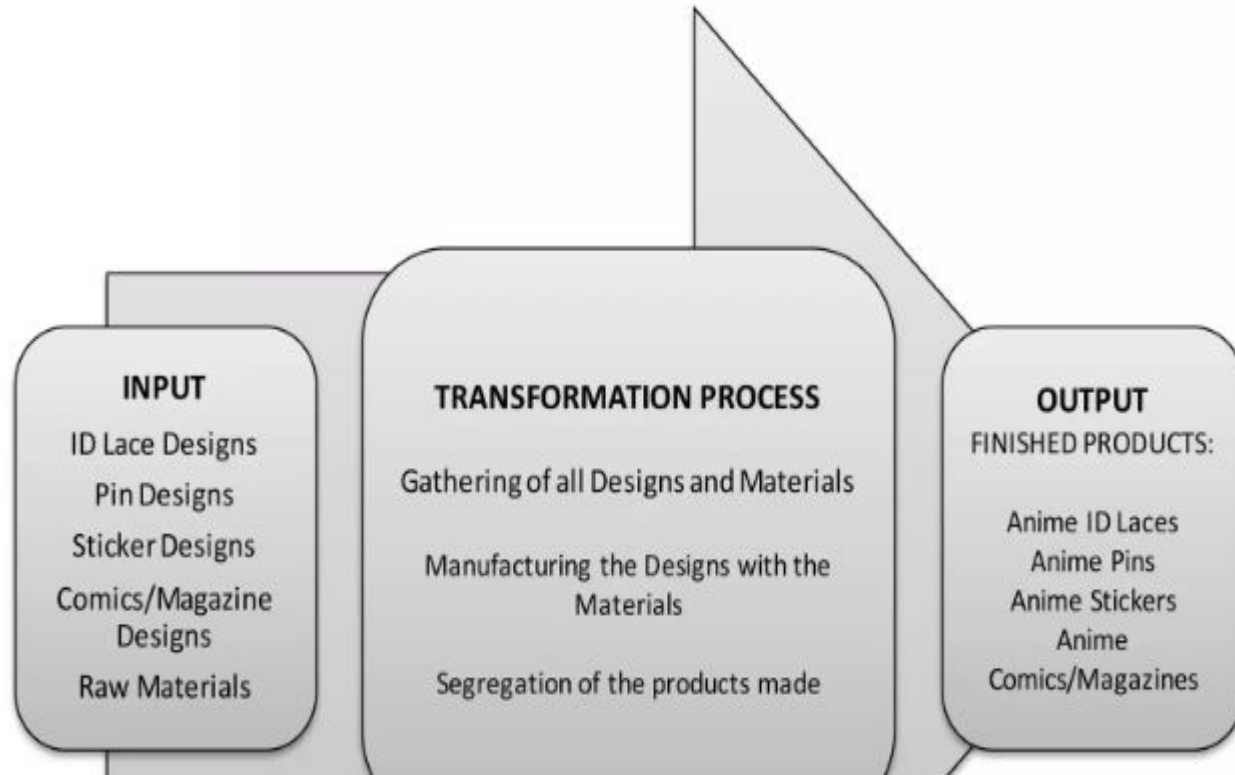
Our store will charge for the good of the MBHS students. It means that our prices will be affordable for students who seem to be our target market. Basically, the pricing is based on the product's raw price plus a small percentage of interest.

Our competitors charge in average. It means that their prices depend on market demand for their avid customers. They charge this way to maintain the competitiveness to the business.

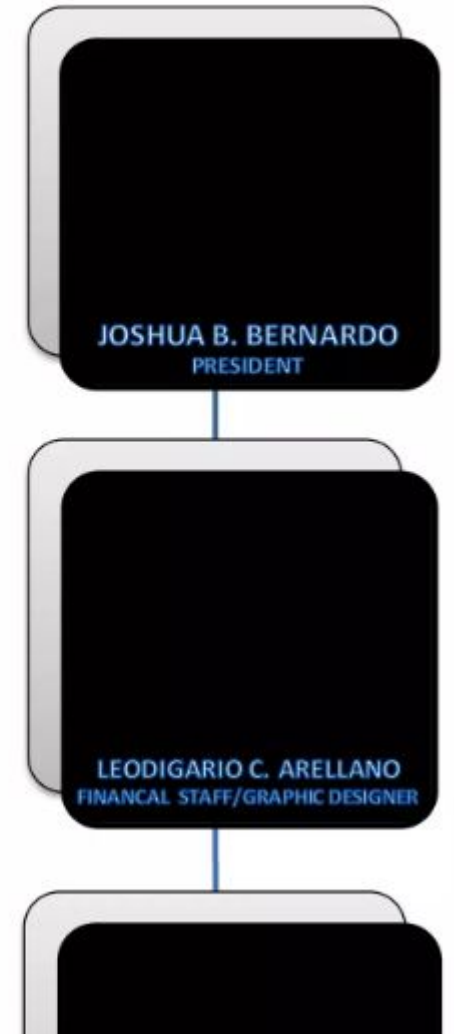
Business plan – an example

OPERATIONAL PLAN / PRODUCTION AND TECHNICAL PLAN

The chart below shows our own production paradigm based on our product concept.



Organizational Chart



Business plan – an example

FINANCIAL PLAN

Capitalization

ジョシュア's Anime Store, the initial capital is P 22,000.00. There will be 3 members. Each of the members shall share P 7,333.33.

Monthly Expenses

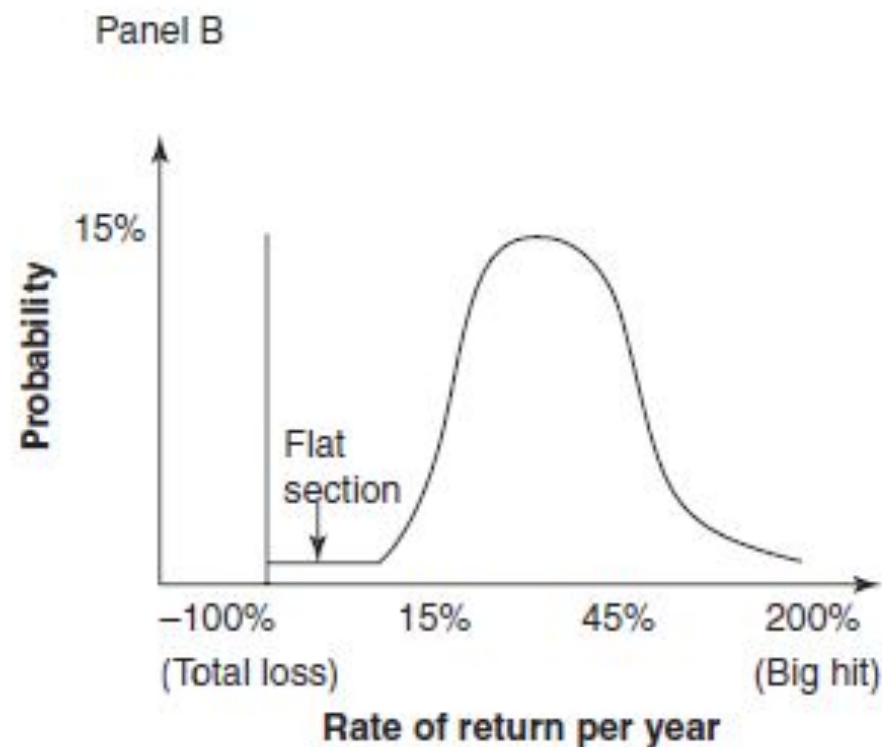
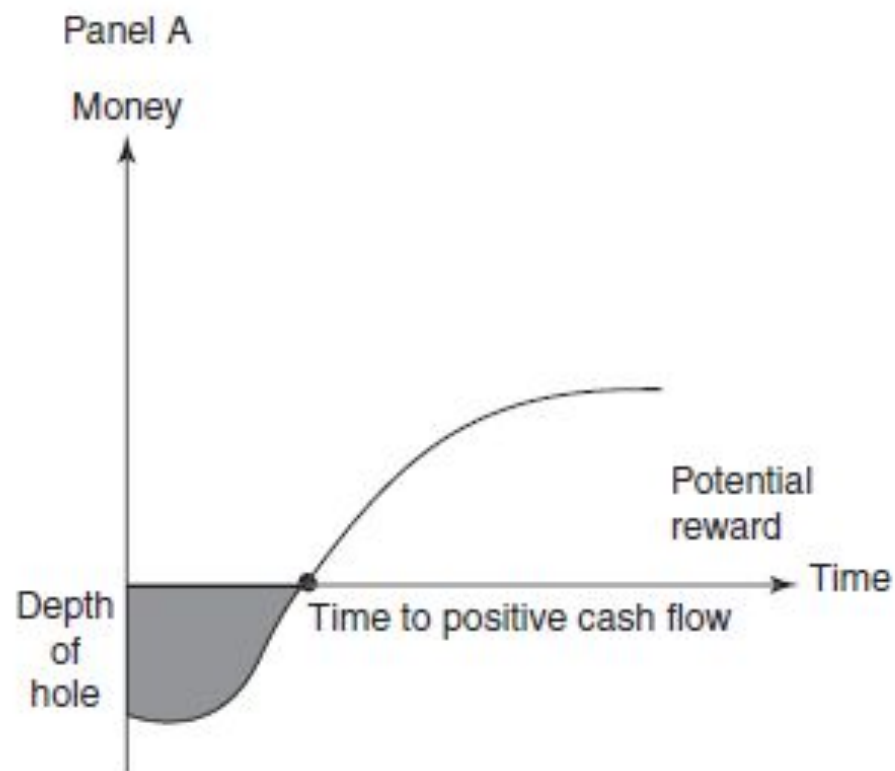
The table below shows our projected expenses per month during the initial year of our operation based on our product.

Computation of Projected Cost and Revenue

Table 2 PROJECTED REVENUE

Types of Product/s	Costing	Projected Volume	Daily Revenue	Projected Volume	Monthly Revenue	Yearly Projected Revenue
		Daily	(C x PVD)	Monthly (PVD x 30)	(DR x 30)	(MR x 12)
ID LACE	C- 15.00	8	C- 120.00	240	C- 3,600.00	C- 43,200.00
	M- 35.00		SP- 400.00		SP-12,000.00	SP-144,000.00
	SP- 50.00					
PIN	C- 10.00	8	C- 80.00	240	C- 2,400.00	C- 28,800.00
	M- 15.00		SP- 200.00		SP- 6,000.00	SP- 72,000.00
	SP- 25.00					
STICKER	C- 7.00	10	C- 70.00	300	C- 2,100.00	C- 25,200.00
	M- 5.00					

Visualizing a Venture's Risks and Rewards



In panel A, the depth of the hole shows lenders and investors how much money it will take to start the business. The length of the chasm shows how long it will take to reach positive cash flow.

Panel B shows investors the range of possible returns and the probability of achieving them. In this example, investors see that there is a 15 percent chance of a total loss and an equal chance that they will earn between 15 and 45 percent on their investment. There is also a small chance that their initial investment will yield a 200 percent return.

Matt Cooper and Rental

- **Matt Cooper** quit his job as an investment banker in New York to start Soggy Bottom Rental in the backwoods of Mississippi. Cooper was tired of the corporate grind and was ready for a change of pace. When Cooper arrived in Mississippi, he went full steam ahead buying the land, building the facilities, and buying canoes, kayaks, trailers, and vans. He did no market research such as talking to any prospective customers before investing in the business. In the seven years the business operated, it never reached even half of the revenues it needed to be successful.
- As a result, Cooper used up all of his savings and much of his parents' savings trying to keep the business afloat. In the end, Cooper closed the business and moved to California to take a job in Silicon Valley. Cooper attributes his business failure to spending his money on buildings and equipment rather than basic market research and marketing.

Tips to make the plan effective

- Realize that first impressions are crucial. Make sure the plan has an attractive (but not an expensive) cover.
- Make sure the plan is free of spelling and grammatical errors and typos. It is a professional document and should look like one.
- Make it visually appealing. Use color charts, figures, and diagrams to illustrate key points. Don't get carried away, however, and end up with a "comic book" plan.
- Include a table of contents with page numbers to allow readers to navigate the plan easily.
- Make it interesting. Boring plans seldom get read; a good plan tells an interesting story.
- Make the case that the business will make money. Start-ups do not necessarily have to be profitable immediately, but sooner or later (preferably sooner), they must make money.
- Use computer spreadsheets to generate a set of realistic financial forecasts. They allow entrepreneurs to perform valuable "what if" (sensitivity) analysis in just seconds.
- Always include cash flow projections. Entrepreneurs sometimes focus excessively on their proposed venture's profit forecasts and ignore cash flow projections
- Keep the plan "crisp"
- Tell the truth. Absolute honesty is always critical when preparing a business plan.

“Five Cs of credit” - What Lenders and Investors Look for in a Business Plan?

- **CAPITAL** - A small business must have a stable capital base before any lender will grant a loan. Otherwise the lender would be making, in effect, a capital investment in the business.
- **CAPACITY** - A synonym for capacity is cash flow. Lenders and investors must be convinced of a company's ability to meet its regular financial obligations and to repay the bank loan
- **COLLATERAL** - Collateral includes any assets an entrepreneur pledges to a lender as security for repayment of the loan. If an entrepreneur defaults on the loan, the bank has the right to sell the collateral and use the proceeds to satisfy the loan.

“Five Cs of credit” - What Lenders and Investors Look for in a Business Plan?

- **CHARACTER** - Before putting money into a small business, lenders and investors must be satisfied with the owner's character. An evaluation of character frequently is based on intangible factors such as honesty, competence, polish, determination, knowledge, experience, and ability
- **CONDITIONS** - The conditions surrounding a loan request also affect the owner's chance of receiving funds. Banks consider factors relating to the business operation such as potential growth in the market, competition, location, form of ownership, and loan purpose.

The Pitch: Making the Business Plan Presentation


- Pitching in business refers to presenting business ideas to another party.
- For example, you may pitch your startup business to potential investors or your products to potential customers.
- A business pitch needs to give your audience a clear understanding of your plan
- Business pitch refers to short presentations that help professionals explain their products or service to potential customers
- When presenting a plan to a venture capital forum, the allotted time is usually less than 20 minutes and rarely more than 30.

The Pitch

The business pitch should include the following:

- Your company and its products and services.
- The problem to be solved, preferably told in a personal way through a compelling story.
- A description (again in simple terms) of your company's solution to the problem. Ideally, the solution your company has developed is unique
- Your company's business model. This part of the presentation explains how your company makes money and includes figures such as revenue per sale, expected gross profit etc.
- Your company's competitive edge. Your presentation should identify clearly the factors that set your company apart from the competition.



The business pitch – an example



TITLE GOES HERE

Provide company name, your name and title,
address, email and cell number

Title Slide

<h3>Problem / Opportunity</h3>  <p>Describe the pain you're alleviating or the solution you're providing.</p>	<h3>Value Proposition</h3>  <p>Explain the value of the pain you alleviate or the solution you provide.</p>
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The business pitch – an example

Slide 2

Value Proposition



Example: A web-based platform that handles design automatically.



Example: Web-based, access anywhere, share with a single click.



Example: Track insights when investors see your presentation.

Slide 3

Underlying Magic



Describe the technology, the secret sauce or magic behind your products. The less text and more diagrams, schematics, and flowcharts, the better.

If you have a prototype or demo, this is the time to transition to it. As Glen Shires of Google said, "If a picture is worth 1,000 words, then a prototype is worth 10,000 slides."

Slide 4



Business Model

Explain who has his/her money in his/her pocket temporarily and how you're going to get it into yours.

Slide 5



Business Model



Example: Student and Academic plans starting at \$30/month.



Example: Startup and Small Business plans starting at \$25/month.

Slide 6



Go-To-Market Plan

Explain how you're going to reach your customers without breaking the bank.

Slide 7



Go-To-Market Plan



Acquisition Channel 1



Acquisition Channel 2



Acquisition Channel 3

The business pitch – an example



Go-To-Market Plan

Explain how you're going to reach your customers without breaking the bank.

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Slide 8



Go-To-Market Plan

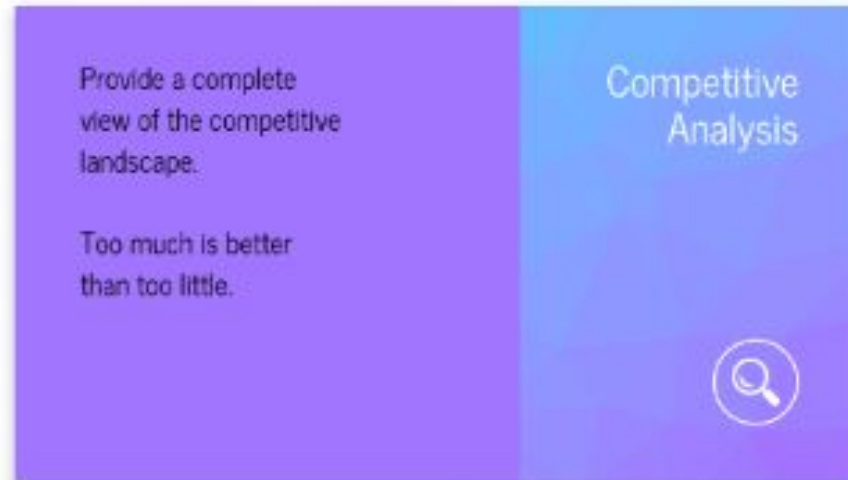
Acquisition Channel 1

Acquisition Channel 2

Acquisition Channel 3

This slide features a blue and purple gradient background with a circular icon containing a dollar sign and a refresh symbol at the top center. Below the title, there are three circular icons representing different acquisition channels: a speech bubble, a megaphone, and a laptop.

Slide 9



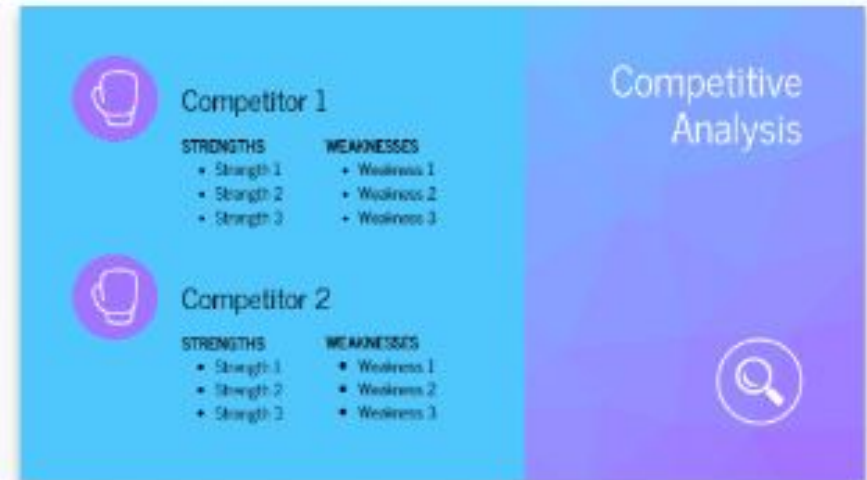
Provide a complete view of the competitive landscape.

Too much is better than too little.

Competitive Analysis

This slide features a blue and purple gradient background. The left side contains two paragraphs of text, and the right side contains the title 'Competitive Analysis' and a magnifying glass icon at the bottom right.

Slide 10



Competitive Analysis

Competitor 1

STRENGTHS

- Strength 1
- Strength 2
- Strength 3

WEAKNESSES

- Weakness 1
- Weakness 2
- Weakness 3

Competitor 2

STRENGTHS

- Strength 1
- Strength 2
- Strength 3

WEAKNESSES

- Weakness 1
- Weakness 2
- Weakness 3

This slide features a blue and purple gradient background. The left side contains two sections for 'Competitor 1' and 'Competitor 2', each with a list of strengths and weaknesses. The right side contains the title 'Competitive Analysis' and a magnifying glass icon at the bottom right.

Slide 11

Christopher Kelley: Badd Newz BBQ

- For years, Christopher Kelley had dreamed of becoming a mobile restaurateur by launching a food
- truck that specialized in barbecue but was hesitant to give up the security of his job at the company
- where he had worked in maintenance for 14 years.
- Like many entrepreneurs, Kelley refused to give up on his dream, bought a food truck, outfitted it, and started Bad Newz BBQ as a part-time business, catering local school events, church gatherings, and fundraisers Alabama.
- Two months later, Kelley's employer announced a massive layoff, and Kelley's job was eliminated. The layoff prompted Kelley to transform Bad Newz BBQ into a full-time business, and he began marketing his food truck via social and traditional media, even landing a regular spot at a nearby army post.
- Kelly, who is 43 years old and has lost three jobs over the last 20 years to layoffs, decided it was time to take control of his own destiny by starting a business. He advises other entrepreneurs to believe in their abilities even when others do not and to devote all of their energy into building a successful business

Eric Muthomi: Stawi Foods and Fruits

- Eric Muthomi grew up in Meru, Kenya, and studied law at the Catholic University of East Africa. While Muthomi was earning his law degree, his goal was to start his own business. After graduating in 2010, Muthomi, just 26 years old, launched Stawi Foods and Fruits, a company that makes a unique banana flour that is used for baking, making baby food, and preparing ugali, a staple dish in Kenya.
- Muthomi, who also studied entrepreneurship and banana processing, says that coming up with his business idea was simple because his hometown of Meru is a center for banana growers and processors. Stawi Foods and Fruits benefited from the publicity and recognition that came after Muthomi won Jitihada, Kenya's national business plan competition, beating out 3,439 other business ideas. Getting into business in Kenya was not easy, however; Muthomi says getting necessary permits and licenses for a food business from various government entities is time-consuming and "tiresome."
- Despite facing challenges, Stawi Foods and Fruits, which employs five people, reached its breakeven point in less than one year, and Muthomi is reinvesting profits into the company to fuel its growth.



Courtesy of Stawi Foods and Fruits

FORMS OF BUSINESS OWNERSHIP AND BUYING AN EXISTING BUSINESS

- Choosing a form of ownership is a decision that has far-reaching effects for both the entrepreneur and the business.
- Although the decision is not irreversible, changing from one ownership form to another can be difficult, time consuming, complicated, and expensive.
- One attorney advises that entrepreneurs should choose a structure
- that offers them protection, while being only as complex as their business will really need

Considerations for evaluating the various forms of ownership:

- ***Tax considerations.*** The amount of net income an entrepreneur expects the business to generate and the tax bill the owner must pay are important factors when choosing a form of ownership.
- ***Liability exposure.*** Certain forms of ownership offer business owners greater protection from personal liability that might result from financial problems, faulty products, lawsuits, and a host of other difficulties.
- ***Start-up and future capital requirements.*** Forms of ownership differ in their ability to raise start-up capital. Depending on how much capital an entrepreneur needs and where he or she plans to get it, some forms are superior to others.

Considerations for evaluating the various forms of ownership:

- ***Control.*** By choosing certain forms of ownership, an entrepreneur automatically gives up some control over the company.
- ***Managerial ability.*** Entrepreneurs must assess their skills and abilities to manage a business effectively. If they lack ability or experience in key areas, they may need to choose a form of ownership that allows them to bring in other owners
- ***Business goals.*** How big and how profitable an entrepreneur plans for the business to become influences the form of ownership chosen.
- ***Management succession plans.*** When choosing a form of ownership, business owners must look ahead to the day when they will pass their companies on to the next generation or to a buyer.
- ***Cost of formation.*** Some forms of ownership are much more costly and involved to create.

Forms of business ownership

- Sole proprietorship
- Partnership
- Companies: Public Company, Private company
- Corporations – C and S types

The Sole Proprietorship

The simplest and most popular form of ownership remains the sole proprietorship. The sole proprietorship, as its name implies, is a business owned and managed by one individual.

- Simple to create
- Least costly form of ownership to begin
- Profit incentive
- Total decision-making authority
- No special legal restrictions
- Easy to discontinue

Coca-Cola, Apple, Hewlett-Packards, Amazon, Google, Mattel and Walt Disney, Flipkart, Snapdeal etc. started a business as sole proprietorship companies

The Sole Proprietorship

- **Unlimited personal liability** - a situation in which the owner of a business is personally liable for all of the business's debts.
- **Limited skills and capabilities** A sole proprietor has total decision-making authority, but that does not mean that he or she has the range of skills that running a successful business requires.
- **Feelings of isolation** Running a business alone allows an entrepreneur maximum flexibility, but it also creates feelings of isolation; there is no one else to turn to for help when solving problems or getting feedback on a new idea
- **Limited access to capital** If a business is to grow and expand, a sole proprietor often needs additional financial resources
- **Lack of continuity of the business** Lack of continuity is inherent in a sole proprietorship. If the proprietor dies, retires, or becomes incapacitated, the business automatically terminates.

Jenn and Phillip Tompkins and RentTheChicken.com

- Jenn and Phillip Tompkins started RentTheChicken.com in Pennsylvania, to take advantage of the growing interest in backyard, suburban farms. RentTheChicken.com takes the risk out of backyard farming for the first-time urban farmers.
- Every spring, the company brings two egg-laying chickens and all of the necessary supplies to its customers who are all located within about an hour of the company's headquarters. The Tompkins offer lessons to clients to help ensure their success at raising chickens. The chicken rental and supplies costs \$350 a season. Then in the fall, RentTheChicken.com picks up the chickens to keep them safe and warm over the winter.
- If predators eat any of the rented chickens, the chickens are replaced at no cost. However, if a chicken dies from neglect, RentTheChicken.com picks up the equipment and charges the customer a fee.

The Partnership

- A **partnership** is an association of two or more people who co-own a business for the purpose of making a profit.
- In a partnership, the co-owners (partners) share the business's assets, liabilities, and profits according to the terms of a previously established partnership agreement
- **Wichcraft** Tom Colicchio, Jeffrey Zurofsky, and Sisha Ortuzar cofounded the first 'wichcraft' sandwich shop in New York City in 2003. Before going into business together to launch 'wichcraft, the three partners had worked together in several fine dining restaurants, which formed the basis for 'wichcraft's culinary roots in sourcing, production, and service. 'wichcraft sources seasonal ingredients from local farms and was an early practitioner of the farm-to-table movement. The company works with local nonprofit organizations to employ inner-city kids as part of its commitment to the community.

The Partnership

- **EASY TO ESTABLISH** Like the proprietorship, the partnership is easy and inexpensive to establish.
- **COMPLEMENTARY SKILLS** In a sole proprietorship, the owner must wear lots of different hats, and not all of them will fit well. In successful partnerships, the parties' skills and abilities usually complement one another, strengthening the company's managerial foundation
- **DIVISION OF PROFITS** There are no restrictions on how partners distribute the company's profits as long as they are consistent with the partnership agreement and do not violate the rights of any partner.

The Partnership

- **LARGER POOL OF CAPITAL** The partnership form of ownership can significantly broaden the pool of capital available to a business. Each partner's asset base enhances the business's pool of capital and improves its ability to borrow needed funds
- **ABILITY TO ATTRACT LIMITED PARTNERS** When partners share in owning, operating, and managing a business, they are **general partners**. General partners have unlimited liability for the partnership's debts and usually take an active role in managing the business. Every partnership must have at least one general partner

The Partnership

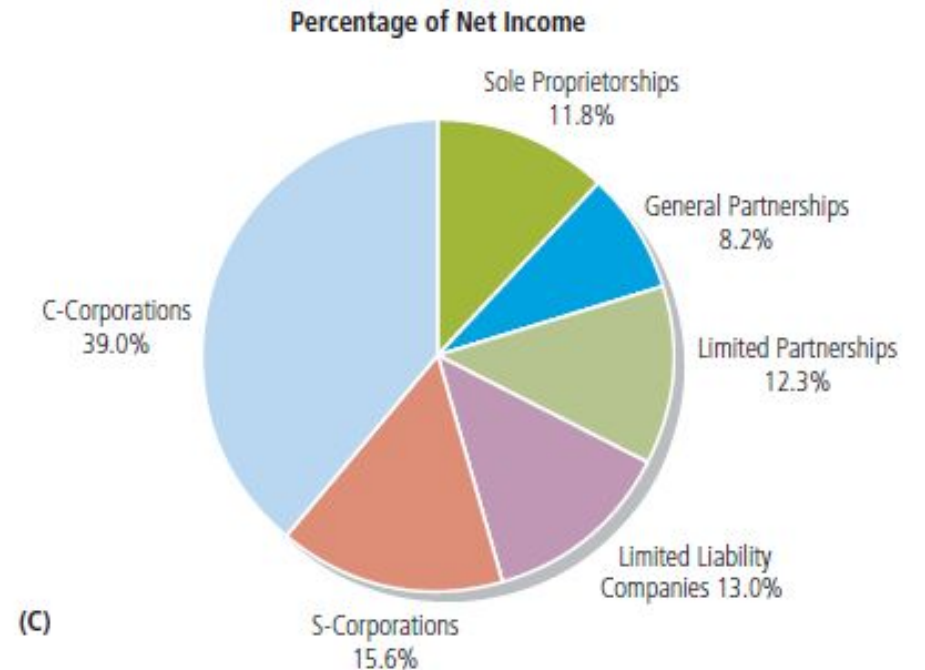
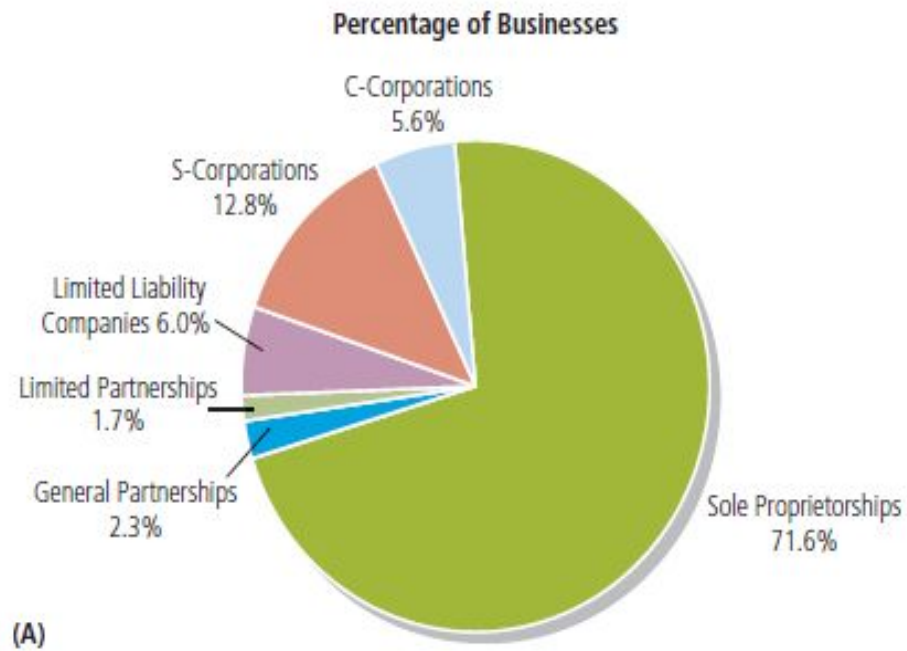
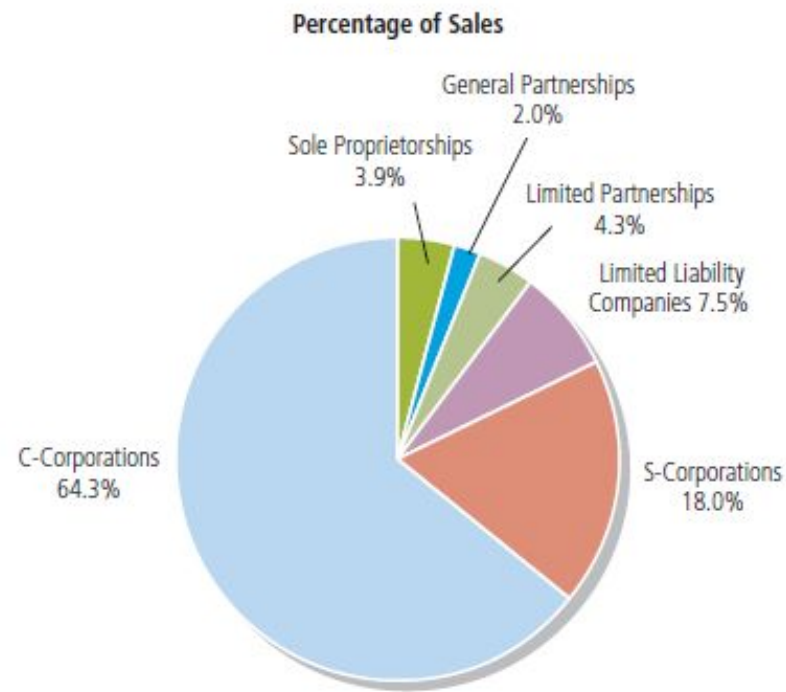
- **UNLIMITED LIABILITY OF AT LEAST ONE PARTNER** At least one member of every partnership must be a general partner. The general partner has unlimited personal liability for any debts
- **CAPITAL ACCUMULATION** Although the partnership form of ownership is superior to the proprietorship in its ability to attract capital, it is generally not as effective as the corporate form of ownership, which can raise capital by selling shares of ownership to outside investors
- **DIFFICULTY IN DISPOSING OF PARTNERSHIP INTEREST** Most partnership agreements restrict how partners can dispose of their shares of the business.
- **POTENTIAL FOR PERSONALITY AND AUTHORITY CONFLICTS** Being in a partnership is much like being in a marriage. Making sure that partners' work habits, goals, ethics, and general business philosophy are compatible is an important
- **PARTNERS ARE BOUND BY THE LAW OF AGENCY** Each partner is an agent for the business and can legally bind the partnership and, hence, the other partners, to contracts—even without the remaining partners' knowledge or consent

Types of ownership - characteristics

Characteristic	Sole Proprietorship	General Partnership
Definition	A for-profit business owned and operated by one person	A for-profit business jointly owned and operated by two or more people
Ease of formation	Easiest form of business to set up; if necessary, acquire licenses and permits, register fictitious name, and obtain taxpayer identification	Easy to set up and operate; a written partnership agreement is highly recommended; must acquire an employer ID number; if necessary, register fictitious name
Owner's personal liability	Unlimited	Unlimited for general partners; limited for limited partners
Number of owners	One	Two or more
Tax liability	Single tax: personal tax rate	Single tax: partners pay on their proportional shares at their individual rate

Characteristic	Sole Proprietorship	General Partnership
Current maximum tax rate	39.6%	39.6%
Transferability of ownership	Fully transferable through sale or transfer of company assets	May require consent of all partners
Continuity of the business	Ends on death or insanity of proprietor or on termination by proprietor	Dissolves on death, insanity, or retirement of a general partner (business may continue)
Cost of formation	Low	Moderate
Liquidity of the owner's investment in the business	Poor to average	Poor to average
Ability to raise capital	Low	Moderate
Formation procedure	No special steps required other than buying necessary licenses	No written partnership agreement required (but highly advisable)

Forms of business - statistics



Buying an existing business

Advantages

- **SUCCESSFUL EXISTING BUSINESSES OFTEN CONTINUE TO BE SUCCESSFUL**
- **SUPERIOR LOCATION**
- **EMPLOYEES AND SUPPLIERS ARE IN PLACE**
- **INSTALLED EQUIPMENT WITH KNOWN PRODUCTION CAPACITY**
- **INVENTORY IN PLACE**
- **TRADE CREDIT IS ESTABLISHED**
- **THE TURNKEY BUSINESS**
- **THE NEW OWNER CAN USE THE EXPERIENCE OF THE PREVIOUS OWNER**
- **EASIER ACCESS TO FINANCING**
- **HIGH VALUE**

Disadvantages

- **CASH REQUIREMENTS**
- **THE BUSINESS IS LOSING MONEY**
- **PAYING FOR ILL WILL**
- **EMPLOYEES INHERITED WITH THE BUSINESS MAY NOT BE SUITABLE**
- **UNSATISFACTORY LOCATION**
- **OBSOLETE OR INEFFICIENT EQUIPMENT AND FACILITIES**

Steps in Acquisition Process

1. Identify
and approach
candidate

2. Sign
nondisclosure
statement

3. Sign
letter of
intent

4. Buyer's
due diligence
investigation

5. Draft the
purchase
agreement

6. Close
the final
deal

7. Begin the
transition

Negotiations

Steps in Acquisition(Aquiring) Process

1. Conduct a self-inventory, objectively analyzing skills, abilities, and personal interests to determine the type(s) of business that offer the best fit.
2. Develop a list of the criteria that define the “ideal business” for you.
3. Prepare a list of potential candidates that meet your criteria.
4. Thoroughly investigate the potential acquisition targets that meet your criteria. This *due diligence process* involves practical steps, such as analyzing financial statements and making certain that the facilities are structurally sound. The goal is to minimize the pitfalls and problems that arise when buying any business.
5. Explore various financing options for buying the business.
6. Negotiate a reasonable deal with the existing owner.
7. Ensure a smooth transition of ownership.

Fuzzy's Taco Shop

- Former restaurateur, Chuck Bush was enjoying a meal at Fuzzy's Taco Shop in Fort Worth, Texas, and observing the restaurant's operating system in action.
- He saw the potential of the restaurant but realized that it suffered from a sloppy operating system. There were no control systems in the business.
- When Bush asked how many shrimp would be served on a particular dish, each employee gave a different answer.
- Chuck Bush and his father, Alan, an accountant, put together a group of investors to buy the money-losing restaurant for \$80,000. They also assumed \$10,000 in liabilities and invested another \$15,000 for working capital.
- Chuck became the on-site manager, and his first step was to close the restaurant for four days, power wash every surface, repaint and redecorate the interior, and retrain the staff. He transcribed all of the recipes, which existed only in one cook's head, and assembled them into a notebook to ensure consistency and cost control.
- Chuck Bush noted that the food at Fuzzy's was good, which is what made him interested in buying the business. The business needed tightening of systems and better operation. The changes the Bushes made were successful, and the business became profitable the first year they owned it.

Thank you