Program for Acquiring Competence in Entrepreneurship

A-1 Evaluating Your Potential as an Entrepreneur
A-2 Understanding the Nature of Small Business
A-3 Making the Most of Marketplace Opportunity
A-4 Investigating Global Markets

B-1 Developing Your Business Plan
B-2 Finding Help for Your Small Business
B-3 Choosing the Right Type of Ownership
B-4 Developing a Marketing Strategy
B-5 Finding the Best Location
B-6 Developing a Pricing Strategy
B-7 Financing Your Business
B-8 Addressing Legal Issues

C-1 Managing Basic Business Functions
C-2 Managing Your Human Resources
C-3 Promoting Your Business
C-4 Maximizing Sales
C-5 Maintaining Accurate Records
C-6 Managing Your Finances
C-7 Extending Customer Credit
C-8 Minimizing Risk
C-9 Maintaining Operations
C-10 Conducting E-Commerce
Program for Acquiring Competence in Entrepreneurship

A-1 Evaluating Your Potential as an Entrepreneur
A-2 Understanding the Nature of Small Business
A-3 Making the Most of Marketplace Opportunity
A-4 Investigating Global Markets
B-1 Developing Your Business Plan
B-2 Finding Help for Your Small Business
B-3 Choosing the Right Type of Ownership
B-4 Developing a Marketing Strategy
B-5 Finding the Best Location
B-6 Developing a Pricing Strategy
B-7 Financing Your Business
B-8 Addressing Legal Issues
C-1 Managing Basic Business Functions
C-2 Managing Your Human Resources
C-3 Promoting Your Business
C-4 Maximizing Sales
C-5 Maintaining Accurate Records
C-6 Managing Your Finances
C-7 Extending Customer Credit
C-8 Minimizing Risk
C-9 Maintaining Operations
C-10 Conducting E-Commerce

CENTER ON EDUCATION AND TRAINING FOR EMPLOYMENT
COLLEGE OF EDUCATION AND HUMAN ECOLOGY
Foreword

I am pleased to introduce you to the Fourth Edition of the Program for Acquiring Competence in Entrepreneurship (PACE). PACE represents our continuing effort to respond to the needs of the education and business communities. At no other time in history has understanding entrepreneurship been as important. For one thing, promoting entrepreneurship carries the societal imperative as small businesses as a whole contribute much to the growth and renewal of regional and national economies.

When first published in the late 1980s, PACE properly emphasized that entrepreneurship was based as much on sound planning as having products and services that were responsive to the marketplace. Through its various revisions, PACE continued to focus on the general importance of planning and managing the startup of a small business.

The current PACE edition represents a necessary break from past versions in both its format and some content. For one thing, the text format has been substantially changed from paragraphs to a series of related sections with subheadings. This change allows readers to have greater accessibility to the information, whether it is delivered via a printed booklet or a technology-based approach. And the format allows the instructor/facilitator to have greater flexibility in selecting content to accommodate the needs of various audiences and settings.

In terms of the content, PACE continues to emphasize the importance of planning and managing of a small business. But it now includes a renewed emphasis on meeting customer expectations. Any business cannot exist without a comprehensive understanding of who receives its products or services. In this sense, PACE introduces the topic of conducting e-commerce. Until recently, the entrepreneurial horizon may have been limited to serving local customers only. The advent of the Internet offers the promise of serving many more customers, but not without the accompanying challenges.

This edition was supported in part by a grant from OSU Extension and in partnership with OSU South Centers – Piketon. We hope that PACE will provide you with the understandings necessary to help you to achieve your entrepreneurship goals.

Ronald L. Jacobs
Director
Center on Education and Training for Employment
Overview

Introduction

When starting your own business, it is essential to develop an effective business plan. The business plan is your blueprint for sustaining a lucrative business. This module gives you the tools you need in order to develop a concrete strategy for operating your business.

Key point: Banks and lending agencies require this document before they will even consider funding your venture.

Continued on next page
Overview, Continued

**Rationale**

Your business plan clearly describes your specifications for key areas of business operations such as finances, marketing, human resources, and legal issues.

**Objectives**

By the conclusion of this module, you will be able to:

- Describe a business plan and the kinds of information it includes.
- State the benefits of developing a business plan and the consequences of not having one.
- Relate the activities in preparing to write a business plan including:
  - strategic planning
  - conducting a feasibility study
  - organizing data.
- Explain how to write a business plan including:
  - how to organize the information you’ve collected
  - the parts of a comprehensive business plan.
- Review a sample business plan in anticipation of writing your own.

**Relevant NCSEE standards**

This module aligns with the following National Contents Standards for Entrepreneurship Education (NCSEE):

- O.09  Develop a business plan.
- I.25  Explain the nature of capital investment.
- A.08  Determine feasibility of ideas.


*Continued on next page*
Overview, Continued

Topics

The topics in this module are:

<table>
<thead>
<tr>
<th>Topic</th>
<th>See Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>What Is a Business Plan?</td>
<td>4</td>
</tr>
<tr>
<td>Part I – Benefits of Writing a Business Plan</td>
<td>6</td>
</tr>
<tr>
<td>• Raising Capital</td>
<td>7</td>
</tr>
<tr>
<td>• Plan vs. No Plan</td>
<td>9</td>
</tr>
<tr>
<td>Part II – Preparing to Write Your Plan</td>
<td>11</td>
</tr>
<tr>
<td>• Strategic Planning</td>
<td>11</td>
</tr>
<tr>
<td>• Conducting a Feasibility Study</td>
<td>14</td>
</tr>
<tr>
<td>• Organizing Data</td>
<td>17</td>
</tr>
<tr>
<td>Part III – Writing Your Business Plan</td>
<td>18</td>
</tr>
<tr>
<td>• Organizing Your Plan</td>
<td>19</td>
</tr>
<tr>
<td>• Parts of an Effective Plan</td>
<td>21</td>
</tr>
<tr>
<td>Part IV – Business Plan Template</td>
<td>25</td>
</tr>
</tbody>
</table>

Exhibits

The exhibits in this module are:

<table>
<thead>
<tr>
<th>Exhibit</th>
<th>See Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Plan Template</td>
<td>25</td>
</tr>
</tbody>
</table>

Before you begin

After reviewing the above objectives for this module, determine whether you can already meet those objectives and consult your instructor if you can.
What Is a Business Plan?

**Definition**
A business plan is a written document that describes the:

- existing business opportunity
- goals of the business
- methods for achieving these goals.

**Rationale**
A solid business plan ensures that you address the key issues involved in running a successful business.

*Key point:* From the very beginning, you will need to present your business plan to the bank or lending agency in order to acquire funding for start-up.

**Questions to ask yourself**
Ask yourself the following questions and write down your thoughts in order to make sure that you have the data that you need to develop a realistic business plan:

**Roles and responsibilities**
- What do I want to accomplish?
- Do I have any business partners and, if so, who are they?
- Who will the customer be?
- How many employees will I need? How will I train them? How will I compensate them for their work?

**Product**
- What is the good or service that my proposed business will market?
- Why did I choose that product?
- How will I promote the product?

**Initial decisions**
- What are the costs to start my business?
- Where should my business be located?

*Continued on next page*
**What Is a Business Plan?** Continued

<table>
<thead>
<tr>
<th>Questions to ask yourself (continued)</th>
<th>Profitability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Why do I believe that my business will be profitable?</td>
<td></td>
</tr>
<tr>
<td>How soon will my business start to earn a profit?</td>
<td></td>
</tr>
<tr>
<td>Will my business remain profitable in the future?</td>
<td></td>
</tr>
</tbody>
</table>

After recording your answers to these questions, can you identify any gaps in the information that you need to start developing your own business plan?

<table>
<thead>
<tr>
<th>Basic parts of a business plan</th>
<th>The basic parts of a business plan are:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description</td>
<td></td>
</tr>
<tr>
<td>Marketing</td>
<td></td>
</tr>
<tr>
<td>Management or Organization</td>
<td></td>
</tr>
<tr>
<td>Operations</td>
<td></td>
</tr>
<tr>
<td>Financial</td>
<td></td>
</tr>
</tbody>
</table>
Part I

Benefits of Writing a Business Plan

Rationale

Every successful business owner follows a clearly defined plan. As an entrepreneur, you’ll count on the business plan to run a business that prospers far into the future. As you strategically plan, keep in mind the entire life span of the business, not just the immediate future.

Key point: With a well-developed business plan, you can avoid the costly mistakes to which many new businesses succumb.

Guiding the start-up process

You can learn a lot about running a business along the way, but how to start up a new business is not one of those things. You have to make a wide range of decisions with potentially serious consequences up front. Developing a business plan helps you:

- Establish goals to guide the planning process.
- Determine objectives in order to identify the small steps to take along the way to reaching the broader goals.
- Assess resources (people, capital, equipment, facilities, etc.) required to achieve goals and objectives.
- Strategize how to use these resources in each functional area to operate a successful business.
- Evaluate the operational and financial feasibility of the strategy.
- Make contingency plans to respond to internal and external changes.
- Communicate your business plan clearly to all affected parties including lenders or investors, employees, suppliers, government agencies, and customers.
Raising Capital

Introduction

A business plan is required when raising start-up capital. You can ask for money from either venture capitalists (loans) or the public (stock offerings). Whichever method you choose, your business plan is the sales tool that convinces lenders and stockholders that the risk they take will be rewarded.

Venture capitalists

You can present your business plan to private investors, banks and lending agencies known as venture capitalists. They invest in your enterprise by lending you the money to start your business.

What they offer
Venture capitalists lend you seed money to finance your business venture. Seed money usually takes the form of a loan.

Note: Seed money is also called venture capital or risk capital because there is a degree of risk in any business venture.

What they expect
Venture capitalists know the risk involved in a business start-up and expect compensation through future profits. Because they have a large investment in your company, they anticipate playing a greater role in business operations.

Key point: If the investor attempts to control your business, you may feel pressured to make it profitable the first year. This approach could be contrary to your planned rate of growth and could damage your future.

Continued on next page
An initial public offering (IPO) is another way to raise start-up capital. If you organize your business as a corporation, you may sell stock in your company to the public. But an IPO is usually the last resort because the public becomes part owner of your business. Although investors consider buying stock in start-ups as risky, they might decide to invest in your business and offer their capital in exchange for ownership in the form of the stock purchase.

**Advantages**
- When you raise capital by involving the public, you don’t have to spend your personal savings.
- Going public promotes your business within the community. An IPO could assist you in attracting high quality managers and making deals with other businesses in the area.
- The money comes from many small individuals rather than a few large investors. You may find it easier to deal with the public than venture capitalists.

**Note:** Venture capitalists have a larger voice in running your business. They have their own money tied up in the venture for years and years as opposed to the public who can trade their stock freely on the stock market.

**Disadvantages**
- You’ll have to compete against large firms with a proven track record.
- If your company turns a profit, the stock will be bid up. Conversely, if it isn’t profitable, investors will react to the results of your performance by bidding the stock price down.
- The cost is high to file the proper paperwork with the Security and Exchange Commission (SEC). Every company that goes public must follow SEC regulations, so you’ll have to hire accountants and attorneys to assist you with filing the SEC-required documents.
Plan vs. No Plan

Introduction

Whether or not you write a comprehensive business plan will have severe consequences on your success in obtaining financing and sustaining a prosperous business. The example below describes how a business plan, or lack of one, impacted the success of a small farm business.

An example

Old Time Farm has been in operation for more than 75 years. The business is currently operated by Bob Smith, using production practices similar to those his grandfather, John Smith, used in 1930. The crops produced are corn, soybeans, oats, and cattle. The farm is barely breaking even due to the increasing costs of inputs and repetitive production practices. Cropping yields have steadily decreased over the years due to improper nutrient levels in the soil. The farm operates by purchasing supplies through local agricultural suppliers that finance the purchases on a month-to-month account. The products produced on the farm are sold in the open market to the highest bidder. The First National Bank holds the mortgage on the property and will be foreclosing within the next year if the current outstanding payments are not made in November when the crops are harvested.

In a desperate effort to save this family owned business, Bob called on the assistance of his son, Mike. Mike had been exposed to business plans in some of his college classes and realized the importance of business planning in operating a business. He and his father talked about the different segments of their business relating to money, management, and marketing. They began to identify different opportunities for improvement within each.

Within the money section, they realized they were loosing money paying the outrageous interest the local agricultural supplier was charging them to finance their account. They are paying 2% interest per month on the account. Upon researching their options, they determined that an equity line of credit secured by their real estate would reduce their interest charges by 50%.

The management section afforded them the option of refining their production practices. Switching from conventional tillage to no-till reduced the fuel usage of their operation by 50% due to fewer trips across the field with their equipment. Since fuel prices are 2½ times higher than they were just 10 years ago, this will result in substantial savings in fuel costs as well as reducing equipment maintenance costs.

Continued on next page
Plan vs. No Plan, Continued

An example (continued)

Last, they examined the marketing strategies of their products. Mike looked at season price fluctuation of agricultural commodities. He saw opportunities for the farm to secure higher prices for its products by contract pricing their products in advance. Bob and Mike also are considering shifting the time of year their cattle are born in order for them to hit peak price periods in the market based on high demand and low supply.

These are just some of the opportunities the Smiths have realized in writing a business plan for their operation. Many more ideas have come to the forefront. They have realized which products they produce are securing the highest profit margins. They are considering shifting some of their land used for less profitable products to higher-profit products. The implementation of the information gathered in the business planning process has helped the family develop a plan to overcome their business shortcomings and will assist them in becoming more competitive in the marketplace.
PACE
Program for Acquiring Competence in Entrepreneurship
Fourth Edition

Cluster A – Exploring Entrepreneurship
Module A-1 Evaluating Your Potential as an Entrepreneur
Module A-2 Understanding the Nature of Small Business
Module A-3 Making the Most of Marketplace Opportunity
Module A-4 Investigating Global Markets

Cluster B – Planning for Business Success
Module B-1 Developing Your Business Plan
Module B-2 Finding Help for Your Small Business
Module B-3 Choosing the Right Type of Ownership
Module B-4 Developing a Marketing Strategy
Module B-5 Finding the Best Location
Module B-6 Developing a Pricing Strategy
Module B-7 Financing Your Business
Module B-8 Addressing Legal Issues

Cluster C – Business Management for the Entrepreneur
Module C-1 Managing Basic Business Functions
Module C-2 Managing Your Human Resources
Module C-3 Promoting Your Business
Module C-4 Maximizing Sales
Module C-5 Maintaining Accurate Records
Module C-6 Managing Your Finances
Module C-7 Extending Customer Credit
Module C-8 Minimizing Risk
Module C-9 Maintaining Operations
Module C-10 Conducting E-Commerce