

1 - What is an entrepreneur?

Why do people want to start their one businesses?

The American dream?

America allows for more failure than any other country

Economies

Free market

Capitalism, market sets the prices

Command economy

Socialism, sets the prices

USA is a mixture

Postal service

Library, fire & police

Efficient economic system

Consumer needs are met with little waste

Consumers know when a price is too high

Laws of supply & demand determine prices

Demand

As price goes up, quantity demanded goes down

Supply

As supply goes up, price goes down

Market clearing price

Where supply and demand lines cross

Competition keeps prices down and quality high

Follow your passion?

Get paid for something you would do for free

Outdoor sports

Art

Music

Entrepreneurship is the essence of free enterprise because the birth of new businesses gives a market economy its vitality

“An entrepreneur is a person who destroys the existing economic order by introducing new products and services, by creating new forms of organizations, or by exploiting new raw materials”

Joseph Stumper

Enhancing creative thinking

Children have it - freeness

We learn

Limitations

Order

Social pressures

FEAR of Failure or FEAR of Success

Brain storming process

Two people together have 3 minds to create

Framework for brainstorming

Structured approach

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Rules

Freedom

Non-judgmental

Napoleon Hill - Think and Grow Rich

Mastermind group

What is an Entrepreneur?

Someone who:

Finds a need and fills it

Finds new opportunities

Willing to learn new skills

Creates new opportunities

Organizes the opportunity, money, and people

Movie: "*Who Killed The Electric Car?*"

New battery technology

Car power distribution systems

Solar voltaic cells

Hydrogen storage technologies

Entrepreneurship is a mindset

Entrepreneurs do three things:

Listen

Observe

Think

Characteristics of an entrepreneur

Adaptability, competitiveness, confidence, drive, honesty, organization, persuasiveness, discipline, perseverance, risk taking, understanding, vision

Entrepreneurs:

Optimists

Positive thinkers

Good self-esteem

Most new jobs are created by entrepreneurs

Computers

Internet

Biotechnology

Medical services

Information technology, etc

Drivers of Opportunities

Changes in business environment

Regulatory changes

Sarbanes-Oxley Act of 2002

New management firms to help companies file paperwork

New technological advances

Computer chips

Size and power

Moore's Law - power doubles in 18 months

Today's cell phones more computing power than the Apollo 11 spacecraft

Materials

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Carbon fiber

Lighter cars

Bullet-proof vests

Space elevator

Social turmoil - civic failure

Crime

Security systems

Education

Private schools

Changing tastes

Wine in France - alcoholism

World competition - Chile, Australia, New Zealand

French wine in a box

Convenient Solutions

Food delivery

Dog walking

Cross-association

Apply technology from one industry into another

Head skis and tennis rackets

Fluorescent bulb ceiling paint

Timing

Timing is of the essence

Technology

A breakthrough?

New combination?

Flexibility

American vs Japanese auto industry

Hybrid cars

NASA

Tang

Tempurpedic beds

Eagle Eye sunglasses

Re-evaluation of a business model

Burlington Northern Railroad

Restructuring

Selling division and companies

Core business?

GE

Tyco

What companies are you familiar with that have found a niche and filled it?

Are these types of organizations the types that excite you?

Entrepreneurs view change as an opportunity

Big companies cannot change quickly

Small business can change quickly

Entrepreneurs are mostly small business

Big business is:

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100 or more employees

More than \$1 million in business

A business must make a profit to stay in business

Lose money in the beginning?

Close a business?

Most entrepreneurs have started many businesses

Remember, it is a mindset

Self diagnosis

Sense of purpose or direction

Risk takers

Self satisfaction

Independence - self employment

Passion and persistence

Luck?

Make your own

Taking calculated risks

Risk & return in small business:

Small scale - small investments

Quick decision making - solve problems quickly

Industry knowledge - entrepreneur is an expert

Lower operating costs - sweat equity

Building a network of contacts

Spend years becoming an "overnight success"

Why be an entrepreneur?

Disadvantages:

Business failure

Obstacles

Loneliness

Financial insecurity

Long hours

Advantages:

Control over time

Creative, fulfilling life

Control over compensation

Control over working conditions

Self-evaluation

Work in the community

Why start a business?

How is starting a business going to affect your life?

Are you in physical shape to start a business?

What parts of starting a business make you uncomfortable?

How do you feel about business in general?

% of ownership of the business

Stress

Delegating people

Long-term business or get in and out

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Types of businesses:

- Manufacturing: makes a tangible product
- Wholesale & retail: middleman to end sale
- Service: sells an intangible product

The entrepreneurial process

- Seeing opportunities
- Changing an existing business
- Brick and mortar - online
- Solving problems

Perspective:

- Some see problems
- Obstacles
 - Too busy
 - Afraid to be criticized
 - Stress
 - Belief that you are not a creative person

Do you see problems?

Develop solutions

Entrepreneurs see opportunities

- What would I like to purchase?
- I hate it when this happens!!!
- This would be easier if...
- Why doesn't someone make something that does?"

Outside suggestions - cross pollination of ideas

"Why would happen if I did it this way?"

Laser shop

*"We can't do that Why? We've never done it that way before"**"Why doesn't it work this way?"*

IT department

"No one ever asked us before"

Traveling in Europe

Why aren't these products in the US?

Bathroom and plumbing fixtures

New program at a Business School

*"Why are you just sending out a press release? That's what marketing people do"**"How about a CD release type event?"*

Opportunity

What a consumer wants, not what you want

Good business idea:

- Meets a consumer need
- You have the resources & skills to bring to market
- Affordable price for the product
- Business will work in your community
- Window of opportunity
- Business is sustainable

Roots of opportunity:

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Problems your business could solve
 Changes in laws, situations, or trends
 Inventions of totally new products
 Competition, price, location, quality, reputation, etc
 Technological advances
 Unique knowledge

Finding and evaluating the opportunity

Home-based business
 Virtual business
 Serial entrepreneur
 Traditional storefront - Internet

Franchising

Proven market for the product
 Trademarks
 Patented design, process or formula
 Accounting and financial control system
 Marketing plan
 Volume purchasing and advertising

What helps a person decide whether that idea is pursued?

Alternative career choices
 Family
 Friends
 Role models
 State of the economy
 Available resources

10 Ds

Dream

Entrepreneurs have a vision of what the future could be like for them and their businesses
 and have the ability to implement their dreams

Decisiveness

Entrepreneurs don't procrastinate
 Entrepreneurs make decisions swiftly
 Swiftiness is a key factor in entrepreneurial success

Doers

Once entrepreneurs decide on a course of action, they implement it as quickly as possible

Determination

Entrepreneurs implement their ventures with total commitment They seldom give up, even
 when confronted by obstacles that seem insurmountable

Dedication

Entrepreneurs are totally dedicated to their businesses, sometimes at considerable cost to
 their relationships, families, and friends Entrepreneurs have extended workloads

Devotion

Entrepreneurs love what they do and it's the love that sustains them during the rough times

Details

Entrepreneurs must be on top of critical details

Destiny

Entrepreneurs want to be in charge of their own destiny rather than dependent on an employer

Dollars

Getting rich is not the prime motivator of an entrepreneur Money is a measure of success

Distribute

Entrepreneurs distribute the ownership of their businesses with key employees who are critical to the success of the business

Role models:

Are most important to entrepreneurs It adds credibility to the effort

Questions to ask before starting a new business

How much sales revenue will be required to keep me in my current life style?

Do I have enough contacts?

What informational resources are available to assist me?

SBA - Small Business Administration

SCORE - Service Corp of Retired Executives

Chamber of Commerce

Economic Development

Job training programs

Odds of success

1 in 10 businesses will see their 10th birthday

Bankruptcy filings are up

New law making it more difficult to file

Are the risks too high?

Sometimes the happiest day of an entrepreneurs life is the day they sell their business

Crucial factor in any new venture is the lead entrepreneur

Never invest in a grade "B" person with a grade "A" idea

Success

First rate management team

Excellent market opportunity

Luck

When preparation and opportunity meet

Ideas

Ideas are a dime a dozen

What's more important:

Personal background

Motivation

Attitude

PASSION

Personal Attributes

Risk/Reward Tolerance

Can you take the heat when payroll is not there?

Polartech - factory burning down

Used savings to keep all employees on payroll

Customer Needs

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Who will buy this?

Name names

If you can't name names, you are not ready to start a business

You only have an idea - not a market

Having the best idea first is by no means a guarantee of long lasting success

Sony Betamax vs VCR

Blue-ray Disc vs HD DVD?

Have you seen questionable products that had great marketing?

Head On

OxyClean

What about questionable products that people invested thousands in?

Pitch to America

Who is your market?

Proven need and not a hypothetical need

Improvements on existing products?

Performance

Price

Distribution

Quality

Service

Timing

Timing plays an important role in many potential opportunities

The window of opportunity opens only once

What are some of these products?

If the window is brief, is it a fad?

What are some of these fads?

Management Team

Entrepreneurs should have experience in the same industry or similar one

Starting a business is not the place for on-the-job-training

Where do you get this experience?

I've always wanted to own a restaurant

Raymond Ave restaurant - Fullerton

I've always wanted to own a bed & breakfast

Resources

Entrepreneurs are frugal with their scarce resources

Low overhead - high productivity

Learn to do everything yourself

Product design

Packaging

Advertising materials

Web design implementation - audio and video

Printing - color printer

Direct mail

Accounting

2 Developing the business concept

Finding a niche

What is the product or service you are offering?

Is there a demand for your product or service?

What is the value and benefit of the new product or service?

Totally new product?

Better location?

Higher quality?

Better service?

Cheaper price?

Products & Services

Product - Tangible, it can be touched

Service - Intangible, provides time, skills, expertise

Basic Business Types

Manufacturing - makes a tangible product

Wholesale - buys in quantity & sells to retailers

Retail - Sells to customers

Service - Sells an intangible product to customers

Does an idea have to be unique?

Many times yes

Google

Travelocity

Often no

Amazon - selling books

New delivery method

Shoe Basement - retail shoes

New delivery method

Opportunity

Is there a market for this idea?

Is it just something you love to do?

Significant value for customers by solving a problem

Filling an unmet need (create one)

Do customers know they "need" this?

Restless leg syndrome

Durable idea - not a fad

Some are still around

Chia Pet

Slinky

Some are not

Pet Rock

Wall Walker

Cost of Running a Business

Define your unit of sale

Item

Hour

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Job or contract

One dozen (wholesale)

Different combinations

Who is your customer?

Are they willing to purchase your product or service?

How much are they willing to pay for your product or service?

Competition's price: more, less, or the same?

Questions and answers

Get feedback from friends

Are you passionate about this new venture?

Is anyone else seeing this opportunity?

Why has this opportunity come to me?

Why has this opportunity come now?

Building the business model

Defining your business

Mission

A concise statement of your business strategy, business definition, and competitive advantage

Clarify what you are trying to do and can help give direction for your business

Gathering Information:

Existing businesses?

Purchase an ongoing business

Franchise

Patents

Product licensing

Industry and Trade Contacts:

Customers

Distributors and wholesalers

Competitors

Former employees

Professional contacts

Consulting

Networking groups

Public filings

Competitive Advantage

Other offers

Compare your offer to other companies

Unique selling proposition

What your competitors cannot match

Ability to change a weak product

Women's golf

What are they selling?

NASCAR

What are they selling?

Volleyball

What are they selling?

Customers will pay for a product or service only if they perceive a benefit whose value exceeds its cost

Dewalt vs Sears tools

Service - returns

Name brand vs store brand

Levis vs Kirkland

Value-created benefits

Coffee shops? Starbucks

Fragmented markets

Space between the elephants toes?

Sport Authority

Sportsman's Warehouse

Small mountaineering shops - service, skill, knowledge?

Growth rate

Olds instruments - now only a brand name

Market Capacity

Whole Foods vs Wal-Mart

Market Share

Coke vs Pepsi

RC and other small colas?

Cost Structure

NASA - \$500 screwdriver & \$5,000 toilet seat

Xerox service in Anchorage

Service tech purchased contracts started own business

Capital Requirements

Do you need a lot of \$\$\$?

Gross Margins

Restaurant vs. market vs. clothing

Show business people = restaurants,

Laundry \$\$\$

Time to Break Even

Burn Rate

Harvest Issues - Exit Strategy

Stay in business until Microsoft buys us.

Cost structure

What is different about your cost compared with your competition?

Advantage or disadvantage?

Will your business be dominated by fixed or variable costs?

Will suppliers dictate your pricing structure?

Cement supplier

Cement is a commodity

Fuel is a commodity

Six sources of Competitive Advantage:

Compare with your competition

Quality

Price

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Location

Selection

Service

Speed - turnaround

Competitive Advantage Strong Enough?

Is the market large and growing?

Can competition also make a profit?

Competition is succeeding but is not strong enough to stop a new competitor?

Can you solve some of the competitors problems?

Bad service, poor quality, etc

Meet customer's needs at a fair price?

Strategy must be sustainable

How long can you keep this up?

WalMart philosophy

Competitive tactics

Specific actions and activities to carry out your strategy

Tactics to Implement your strategy:

Sales plan

Where & how to reach your customers

Market communications

Make costumers aware of your business

Operating plan

Internal affairs

Budget

How will yo manage your revenues & expenses?

Means and methods to implement strategy

SWOT analysis

Strengths

Business location

Product exclusivity

Patents or proprietary goods

Established distribution channel

Weaknesses

Limited human resources and staff

High cost of production

Products or service similar to competitors'

Opportunities

Changing government regulations

New technology

Growing trend and customer base

Threats

Economies of scale - product volume

Brand loyalty - find a niche

High capital requirements - requires big \$\$\$

Buyer switching costs - change to new product

Distribution channels - standard channels

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Proprietary factors - technology or processes
 Government regulations - approvals and licenses
 Industry hostility - difficult for new business to enter

Feasibility study

Decision outcomes

Pursuing an opportunity with poor potential

Sinking the boat

Decision not to pursue the opportunity

Miss the boat

Xerox's creation of the GUI that Apple used

GUI PHOTOS

Executive summary

Capture the reader's attention

Business concept

What is the business?

Who is the customer?

What is the value proposition?

How will the benefits be delivered?

How did you come to this new opportunity?

Industry analysis

Trends and patterns of change

Is industry growing?

Competitors

Where are the opportunities in the industry?

Status of new technology

Have new companies entered the market?

Profit margins within the industry

Market analysis

Features vs benefits

Marketing Questions:

What product attributes are important?

Have long enough life span to pay off investment?

Can it be "Value Added"

Does it have a good profit "margin"

Can it be done in a cost effective way?

Does it have a competitive advantage?

Who are your major competitors?

Why do you compete?

How do you compare?

What is future potential competition?

What entry barriers exist for you and new competition?

What is your competitive position?

What product attributes are important?

Market

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Can it be identifiable

Easy to reach

Large enough

Affluent enough

Have the right need?

How is customer's willingness to buy influenced by

Product design

Product pricing

Product communication

Where do customers buy this kind of product?

How will the market change in the future?

Market segmentation

What is your sector

What is the growth of the sector

How mature is the industry

External affects

What affects the your industry

Government Regulations will affect you?

Target market

Age

Education

Gender

Income

Location

Market positioning

Customer's perceptions about the product

Price

Quantity/service

Location

Season

Hours

Variety

What is your competitive advantage?

Customer value proposition**A product attribute is not a benefit until customers buy-in to it.****iPhone****Forman Grill****Vegamatic****New product development**

Pricing strategy

Is pricing your niche?

Tata Motors India - \$2,400 car

Bugatti - \$1.5 million

Price setter or taker?

Your product a commodity?

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Athletic shoes - Skinny Raven vs. web

Price elasticity

Would a price hike cause less demand?

Matching competitor's pricing**Home Depot vs, Lowes****Perceived value pricing****Bose****Tempurpedic**

Customer mix

Demographics

Buying habits

Where do they get information?

Will they want your product?

Customer perceptions

Price, location, product, service, season, timing, target market, indirect costs to customers, image, social consciousness

Marketing mix

Line of products?

Price points?

Product development plan

How long to develop the product of service?

Patents?

Manufacturing from raw materials?

Repackaging existing products?

Financial plan

How much money do you need to start?

Sources of funds - debt vs equity?

How long to positive cash flow?

Conditions under which to start the business

When to stop and when to go ahead

Timeline to launch the business

Action plan and list of tasks

Marketing communications

Push vs pull

Push a product through channels

Trade shows

Personal selling

Pull

Create user demand

"Ask your doctor"

RLS**Famous people using products**

Organizing the business

Factors influencing the business

Cultural

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Economic

Political

Environmental

Business structure

Liability protection?

How will you distribute company earnings?

Tax strategies?

Generate an initial profit or loss?

Business organization

Sole proprietor

One owner

Liable for all claims against the company

Dissolution on death of owner

Owner free to sell business

Receives all profits and losses

Owner has complete control

Partnership

Many owners = general + limited partners

General partner liable for all claims

Dissolution on death of a general partner, not limited partners

Sales requires consent of other general partners

Profits shared based on partnership agreement

Shared by general partners abased on agreement

Corporations

Business structure - own legal status

Decisions by a Board of Directors

Advantages:

Limited legal liability

Raise money through sale of stock

Ownership can be transferred

Legal entity - everything but vote

Disadvantages:

Double taxation

Founder can lose control of company

Expensive to start a corporation

Many government regulations

S Corporation

75 owners

All owners share limited liability

Corporation has a continuity of life

Owners can sell shares subject to agreement

Profits go to owners

Management shared by general partners according to agreement

US citizens, no corporate, partnership ownership, no double taxation

Professional Corporation

Doctors, lawyers, architects, etc.

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Nonprofit Corporation 501(c)(3)

Raise money - charitable contributions

LLC

Many owners

All owners share limited liability

Corporation has a continuity of life

Owners can sell shares subject to agreement

Profits go to owners

Management shared by owners

C Corporation

No limit on number of owners

Shareholders liable to amount invested

Corporation has a continuity of life

Owners can sell shares subject to agreement

Profits paid to shareholders as dividends

Management control by board of directors

Management analysis

Who is your management team?

Levels of experience

Functional areas

Product development

Marketing

Finance

Operations

Decisions

Teams make better decisions

Staffing

You can't fire your family

Attorney

Contracts

Accountant

Oversee financial operations

Banker

Your best friend

Insurance Broker

Long haul protection

Board of advisors

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3. Product development

New ideas and inventions

Accidental discovery

Changing perceptions

Economic changes

Who will design the product?

Differentiation - how is it different?

Steps in the Development Process:

Idea

Prototype

Production - tooling, setup costs

Production/Distribution Chain

How many people between you and customer?

Markups - increase at every link of chain

Quality

Profit comes from quality.

Why quality is cheaper?

You don't have to fix it.

Satisfied customers.

Customer loyalty.

If it's good enough to to, it's good enough to do right

Research and development

Outsourcing

Experience from other companies and experts

Alternatives

Pricing structures

Production methods

Product design

Focus groups - ask customers what they need

Function - intuitive?

Manufacturability - can you make it profitably?

Prototyping

Who will produce the prototype?

In-house

Subcontracting out the work

Test production

How will the product be built?

Special equipment needed to be built?

Sources of materials

Who will build the product?

Test marketing

Make changes after feedback

Market introduction

Packaging

Pricing mix

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Distribution channels

Logistics

In-house

Outsourcing

Time from manufacturing to purchase

Final retail price

Markups along the distribution channel

Producer

Distributor

Retailer

End-user

Total cost of marketing

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4 - Marketing plan

Defining the business situation

Creativity

Invent or make something using imagination

Creativity people are not afraid to make mistakes

Thinking

Vertical

Old patterns, one way - concept prisons

Lateral

Alternative ways of thinking

Listening to Your Market

What do people say

Do they

Like it? Want it? Need it? Fill a need?

Customer Needs

Meet needs to gain loyalty

Listen

Be pleasant

Eye contact

Ask sincere questions

Get feedback

Follow through

Marketing is critical

Entrepreneurs must create the offer

Design products and set price

Take the offer to the market

Distribution channels

Tell the market about the offer

Communication

Startups

Gain market's acceptance of its products or services

Build brand awareness

Product differentiation

Market research

Will people be interested and pay

Can it be delivered in an economical way?

Distinguishes opportunities from ideas.

Reduce the risk of investment.

Testing marketing campaigns

Entrepreneurs need to be

Customer-oriented

Understanding the market and where it is going

Demographics

Age, gender, marital/family status, income

Behavior

What they do, work, play, groups they belong to, things they buy, where they go on vacation, how much they spend.

Customer-oriented

Understanding the market and where it is going.

Demographics

Age, gender, marital/family status, income.

Behavior

What they do, work, play, groups they belong to, things they buy, where they go on vacation, how much they spend.

Psycho Graphics

What they think and value

Research sources

Surveys

Use & frequency of purchase

Where purchased

General

Libraries, public agencies, other resources

Statistical

Age, income, gender, occupation, zip code, etc

Industry

Chamber of Commerce, SBA, etc

Research your market before you begin

What is your market segment?

Geographic area

Competition

Price

Promotion methods

How can you be different?

Location

Distribution methods

Quality

Price

Listen to the customer

Product or service

Logo

Name of the business

Prices

Location

Promotional efforts

Naming Your Business:

Who you are and what you do

First name - Joe's Pizza

Pride, local flavor, friendly

Last name - Fredrickson Pizza

What if business fails or is sold - (Moog)

How to Build a Brand

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- Business name that is easy to remember
- Describes your business
- Create a logo that symbolizes your business
- Develop a good reputation
- Create a brand personality

Brand equity

- Customers respond to a brand
 - Negative - Oldsmobile
 - Positive - Nike

Communicate Your Brand to Target Market

Focus Your Brand:

- On one benefit you want your customer's to have

What companies do you feel good about?

REI?

Annually, REI dedicates a portion of its operating profits to help protect and restore the environment, increase access to outdoor activities, and encourage involvement in responsible outdoor recreation.

Patagonia

Build the best product, do no unnecessary harm, use business to inspire and implement solutions to the environmental crisis.

What companies do you not support?

Wal-Mart

Exxon

Four P's

Product

- Meet or create a customer need

Place

- Where do your customers shop?

Price

- Priced effectively = value?

Promotion

- Advertising, promotion, publicity, etc

SWOT analysis

Goals and objectives

- Where have you been?
- Where are you going?
- How do you get there?

External Environmental analysis

Economy

Culture

Technology

Legal issues

Availability of raw materials

Internal Environmental analysis

Financial resources

Management team

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Suppliers

Company's mission statement

Target market

Market mix

Product, price, promotion, and place

Branding

Market implementation

Budgeting

Monitoring

Feedback

Demographics

Who are they?

Race, gender, age, sexual orientation, etc

Where are they?

Zip or area codes, states, countries, etc

How much do they make?

Interests or hobbies?

Education, reading habits, TV or magazines?

Technology

Principles of selling

Advertising

Newspaper

Geographically based

Local markets

Short shelf life

Magazine

Targeted audience

Long shelf life

Budget flexibility

Brochures & flyers

Allows creative flexibility and focused message

Television

High cost

Used for brand building

Radio

Good creativity

Message varied

Short shelf life - must repeat

Internet

Variety of options

Data can be collected and measured

Newsletter

Creative options and control

Direct mail

Permits precise targeting

Results are measurable

- Infomercials
 - Effective for story telling
 - Costly to produce
- Telemarketing
 - Interactive communications
 - Increased regulation
 - Can be intrusive
- Outdoor advertising
 - Visual impact and repeatability
 - High return on investment
 - Location based
 - Illegal in some locales
- Phone books
 - Local medium
 - Credibility
 - Low cost
- Sales promotions
 - Coupons
 - Rebates
 - Loyalty rewards
- Publicity
 - Public Service Announcement
- Public relations
 - Generally free promotion
 - Diabolical Puzzles
- Personal selling
 - Sales force needed
- Where?
 - Trade shows
 - Trade associations
 - Big retailers
 - Direct marketing and sales
 - Internet
- Guerilla marketing
 - Breaking free from the pack

5 - Financing your business

Forecasting sales

- Estimating without perfect information

 - Industry insiders

 - Suppliers

 - Distributors

 - Customers

 - Your own knowledge

Forecasting cost of goods

- Fixed costs

- Variable costs

- Distribution costs

- Taxes

Break-even analysis

- Fixed costs

- Contribution margin

Other Costs

- Capital expenditures

 - Plant and equipment

- Startup costs

 - Design

 - Development

 - Prototyping

 - Setting up office

 - Training

 - Initial advertising

- Operating losses

 - Initial time period in the red

- Fixed costs

 - Don't vary with sales

Capital needs

- Total startup costs

 - Profit Potential

 - Owner's salary

 - Entrepreneurs need to work into their profit potential

 - Debt payments

 - Burn rate of initial funds

- Operating losses

- Safety factor

Debt vs equity

- Pay interest?

 - Line of credit?

 - Credit cards?

 - Family and friends?

- Give up a portion of ownership?

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Stock?

Limited partnership?

Venture Capital

Most new businesses will never be candidates for VC funding.

Double Jeopardy

Entrepreneurs have savings and means of support wrapped up in a business.

Lose the business:

Lose their income

Lose their savings

Risk of return

Riskier investments are higher

Risk & return in small business

Small scale - small investments

Quick decision making - solve problems quickly

Industry knowledge - entrepreneur is an expert

Lower operating costs - sweat equity.

Finding sources of capital

Relatives and friends

Partnerships

Individuals

Corporations

Financial institutions

Borrowing \$\$

Collateral

Other ways to pay back loan

Government assistance

SBA guaranteed loans

State agencies

Grants

Loans

Selling stock

Going public

Angel funding

High net worth

\$10,000 - \$500,000 investment

10 - 25% return

% of ownership

They will eventually want you to sell the business

Venture capital

10 - 25% return

% of ownership

They will eventually want you to sell the business

Fund focusing on ROI

Problem areas

Projecting growth that exceed the capabilities of the management team

Jack of all trades

Projecting growth that exceeds industry averages

Underestimating the need for capital

Confusing strategy and tactics

Focusing too much on price

Not investing your own money in the venture

Bankers issues

Justify amounts of capital with calculations and forecasts

Use loan to pay off old debts

No collateral

No ability to repay the loan

Contingency plans for unexpected events

No financial stake in the business

Government assistance

Small Business Administration

Government programs: local and state

Development corporations

Federal programs

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6 - Business plan

Who is going to read the plan?

Executive summary

Proof of concept

Business concept

Product or service

Customers

Benefit

Distribution

Purpose of the business

Core values

Description and uses of product or service

Primary customers

Management team

Market analysis

Industry description

Target market

Competitors

Differentiation and competitive advantage

Process analysis

Technical description of product or service

Status of development

Distribution channels

Organization plan

Philosophy of management

Legal structure

Organizational chart

Marketing plan

Summary of key points and capital requirements

Needs assessment

Costs

Working capital

Startup costs

Break-even analysis and payback period

Plan for funding

Growth plan

Appendix

Financial statements

Assumptions for financial statements

Pro forma financial statements

Process plan supporting documents

Marketing plan supporting documents

Organizational plan supporting documents

Contingency plan supporting documents

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7 - Legal & tax issues

Licenses

Trade permits

Certificates

Codes

Permissions

Registering your business

 Business name

 Domain

Taxes

Product liability

Intellectual property

Employment law

Ethics

8 - Running the business

Technology

Fixed vs. variable costs

Fixed - do not change over time.

Utilities

Salaries

Advertising

Insurance

Interest

Rent

Depreciation

Variable - change with production

Break-even analysis

Keeping good records

Daily Financial Records

Income statement

Revenue

Cost of goods sold (COGS)

Total revenue (selling price)

- Cost of good sold

Gross profit

Other variable costs

Gross profit

Fixed costs

Pre-tax profit

Taxes

New profit/loss

Balance sheet - snapshot of company's worth

Assets

Liabilities

Owner's equity

Ratios

Debt = total debt/total assets

Debt to equity = debt/equity

Quick = cash/current liabilities

Cash flow statement

Financial ratios

Return on investment ROI

Net profit = \$15.00

-Investment = \$5.00

ROI = \$10.00

ROI is a percentage.

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Net profit = \$15.00

Investment = \$5.00

= 300%

Return on sales ROS

Basic Accounting System

Receipts, Invoices, Purchase Orders, Packing Slips.

Staff

Hiring

Training

Compensation

Firing

Motivation and incentives

Strategic Differentiation

Team

Ability to adapt?

Brainstorm?

Ability to learn, change, improve?

Workplace environment

Leadership

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9 - Protecting the business

Organizational structure

Corporation etc?

Filing documents

Intellectual property

Copyright

Life of author + 70 years

Work must be "fixed" in tangible form

Trademarks

Protect symbol, word, or design used to identify a business or product

Patents

Utility

Functional parts of a machine or process

Software that drives the machine

20 year life

Design

Ornamental design covering the appearance

14 year life

Contracts

Offer

Acceptance

Consideration

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10 - Business relationships

Strategic alliances

Fundamentals of communication

- Knowing the audience

- Power of listening

- Credibility of the speaker

- Evidence and emotion in persuasion

- Organizing the argument

Negotiation

- Achieving one's goals through give and take

 - Compromise?

- Before negotiations

 - Set your goals

 - Decide on your boundaries

 - Walk in the other person's shoes

 - Don't talk \$\$\$ until you have to

- During negotiations

 - Listen

 - Let other person name a dollar figure first

 - Try extremes - very high or low

 - Show willingness to bargain

 - Silence can be an important tool

 - Always ask for more than has been offered

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11 - Managing and growing the business

Leadership

From entrepreneur to professional management

Creating management teams

Finding and keeping good people

Decision-making and empowerment

Trusting your employees

Letting them create and succeed

Accountability

Ownership and responsibility

Management functions

Planning

Organizing

Leading

Directing

Staffing

Controlling

Representing

Innovating

Motivating

Growing your business

Building the customer base

Developing the market

Developing the product

Branding the company

Contingency plans

Preparing for bad times

Protecting your business from lawsuits

Insurance

Cautious about the people you hire

All communications in writing

Consulting with your attorney

Sales decline

Talk with your customers

Quality control

Control overhead costs

Prepare a sales contingency plan

Loss of key employee

Key-person insurance

Cross-training of employees

Keep good employment relations

Government regulations

Changing laws

Taxes

Product liability

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- Instruction manuals

- OSHA requirements

- Train your dealers, distributors and reps

- Respond to customer complaints

- Verify advertising claims

- Product liability insurance

Growing within your industry

- Vertical integration

 - Gaining control over - through purchase or contact

 - Raw materials

 - Suppliers

 - Distribution channels

- Horizontal integration

 - Gaining control over - through purchase or contact

 - Competitors

 - Starting a competing business

 - Manufacture your product under another label

 - Reach a different market segment

- Developing strategic alliances

 - Suppliers

 - Distributors

Growing outside your industry

- Diversifying to complementary products

 - Acquire a similar business

 - Share distribution channels

- Acquire an unrelated business

Expand globally

- New distribution channels

- New partnerships

- Branch offices

- New alliances

- New manufacturing plants

Online sales

- Establish Internet presence

12 - Selling the business

Business brokers

Preparing for sale

- Good documentation

 - Sales figures

 - Customer list

 - Cost structure

 - Inventory

 - Raw materials

 - Intellectual property

Pricing

- Assets

 - Raw materials

 - Inventory

 - Cash and other liquid assets

 - Accounts receivable

 - Good will

- Liabilities

 - Debt

 - Accounts payable

 - Other liabilities