

## FBLA Entrepreneurship Study Guide

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### Initial Capital and Credit

Portions of this from: <http://entrepreneurs.about.com/od/financing/a/startupfunding.htm>

Fundamentally, there are two types of business financing:

- Debt financing - You borrow the money and agree to pay it back in a particular time frame at a set interest rate. You owe the money whether your venture succeeds or not. Bank loans are what most people typically think of as debt financing, but we will explore many other options below.
- Equity financing - You sell partial ownership of your company in exchange for cash. The investors assume all (or most) of the risk--if the company fails, they lose their money. But if it succeeds, they typically make *much* greater return on their investment than interest rates. In other words, equity financing is far more expensive if your company is successful, but far less expensive if it isn't.

Friends and family - Still your best source for both loans and equity deals. They are typically less stringent regarding your credit and their expected return on investment. One caveat: structure the deal with the same legal rigor you would with anyone else or it may create problems down the road when you look for additional financing. Prepare a business plan and formal documents--you'll both feel better, and it's good practice for later.

Credit cards - a great tool for cash flow management, assuming you use them just for that and not for long-term financing. Keep one or two cards with no balance on it and pay it off every month to give yourself a 30 to 60 day float with no interest. And the low introductory rates on some cards make them some of the cheapest money around. Managed well, they're extremely effective; managed poorly, they're extremely expensive.

Bank loans - They come in all shapes and sizes, from micro loans of a few hundred dollars, typically offered by local community banks, to six-figure loans by major national banks. These are much easier to obtain when backed by assets (home equity or an IRA) or third-party guarantors (e.g., government-sponsored SBA loans or a cosigner). If you obtain a line of credit rather than a fixed-amount loan, you don't start paying interest until you actually spend the money.

Leasing - the way to go if you need big-ticket items such as equipment, vehicles, or even computers. Your supplier will help you explore this.

Angel investors - They fill the gap between friends and family and venture capitalists, who now rarely even look at investments below \$1 million. Enlist a savvy financial adviser to structure the deal.

Private lending - represents a viable alternative when the bank says "no". Private lenders are looking for the same information and will conduct similar due diligence as the banks, but they typically specialize in an industry and are more willing to take on higher-risk loans if they see the potential.

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### Financial Statements

Balance Sheet:

- Assets=Liabilities+Equity
- Assets are fixed assets: land, buildings, equipment
- and current assets: cash, accounts receivable, marketable securities, notes receivable, and inventory

- Liabilities are assets owed to others: accounts payable, notes payable, interest payable, wages payable, taxes payable
- Equity: stocks, earnings, equity
- “snapshot” of economic picture
- Reports the resources of the entity, useful for evaluating ability of company to meet long-term obligations, comparative balance sheets very useful from one time to a later time.
- change in the equity is essentially income

#### Income Statement:

- results of entity’s operations during a period of time
- Net Income=Revenue-Expenses
- Revenue are inflows
- Expenses are outflows

#### Cash Flow Statement:

- company may be profitable but lose cash, this is where cash flow statement comes in, useful in ability to pay bills, encompasses a time period
- analysis of all transactions in business, where it got cash and how cash was used
- Sources of cash, uses of cash, change in cash balance
- operating activities, investing activities, financing activities
- Info comes from beginning and ending balance sheets and income statement
- improve cash flow statement by decreasing accounts receivable, increasing revenue, decreasing expenses

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### Government Regulations/Laws

#### Laws:

- Sherman Law is against monopolies
- Clayton Law is no tying products one another, forcing people to buy one thing with another
- Robinson Patman Act is against price discrimination on customers
- Wheeler Lea is against deceptive advertising and false advertising
- Fair Labor Standards Act - Minimum Wage
- Safety and Health Act of 1970 - provide safe and sanitary work environments
- Employee Retirement Income Security Act-receive retirement plan and health plan benefits
- Immigration and Nationality Act-only US citizens and individuals with work visas can work, business must keep I-9 file on hand

#### Regulations:

- Government regulates advertising: must be truthful and not misleading, back up claims made, fair to competitors and consumers
- Government regulates employment and labor: protect minimum wage, benefits, safety and health compliance, working conditions, equal opportunity employment, privacy regulations
- Government regulates environment
- Government regulates privacy
- FDA ensures safety of food and drugs
- FCC regulates broadcast signals (TV and Radio)
- FTC protects consumers from unfair practices
- CPSC regulates everything that is not regulated by others (not food and drugs etc.), created by Consumer Product Safety Act in 1972

Small Business Administration is government agency, give loans made through partnering banks to startups and small businesses, helps small business start + grow

Manges Loan Guarantee Program, 504 Fixed Asset Financing Program, and MicroLoan Program

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### **Business Plan**

What is a business plan? It is a written plan of a company's future and goals. Used by entrepreneurs to convey goals to potential investors.

Portions of this from:

<http://www.sba.gov/category/navigation-structure/starting-managing-business/starting-business/how-write-business-plan>

General Content/Order (see below in-depth for changed and new other sections):

1. Executive Summary
2. Business Description
3. Market Strategies
4. Competitive Analysis
5. Design and Development Plan
6. Operations and Management Plan
7. Financial Factors

In-Depth on the many sections in order from first to last:

#### 1) Executive Summary

The executive summary tells the reader key, but main info, such as where your business is (in terms of goals etc), where you want to take it, and why it will be successful. This is usually written last, but is always the first section of a business plan. It also includes other key, but main info, such as a mission statement (explains what the business is about), company info (who, when, where) and what your products are. Finally, it has product information as well it concludes with financial info such as examples of company growth, what financing you are seeking (if any) and info regarding current investors along with a summary of future plans.

- Mission statement and goals, company info, product overview, growth highlights, current investors, future plans

#### 2) Company Description

The company description provides high-level review of a company, describes the nature of a business + market, and an explanation of how your product satisfies that market. A good description explains how your product/service meets those needs, and list specific consumers that you are serving. End the company description with your competitive advantages.

- Review of the company - description of business + market, why your product serves the market, who specifically is in your target market, competitive advantages

#### 3) Market Analysis

Should illustrate industry and market knowledge as well as research findings on market and conclusions.

- Industry Description and Outlook -- Describe your industry using historic growth rate and current size. List major customer groups in industry.

- Information about your target market -- research and include information about target market
- Distinguishing Characteristics -- critical needs of customers, demographics and location, special trends they follow
- Size of the primary target market -- forecasted growth of market, purchases
- Market share -- include how much market share can be gained and number of customers to obtain in geographic area
- Pricing and Gross Margin targets -- define pricing structure, detail gross margin levels
- Competitive Analysis -- Identify competition by product line or service and market segment; Market share, strengths and weaknesses, barriers of market, window of opportunity to enter market, indirect or secondary competitors
- Regulator Restrictions -- include any customer or government regulatory requirements affecting business and how business with comply

#### 4) Organization and Management

Includes company's organizational structure, details of ownership in company, profiles of management team, qualifications of Board of Directors

Answer who does what in your business, what is their background and why are you bringing them into the business as board members or employees. Give a detailed description of each division or department and its function. Include the board members and how you intend to keep them there. Salary, benefits, incentive, promotions. Include the legal structuring of the business: corporation, partnership, etc.

Ownership info:

- Names of owners
- Percentage ownership
- Extent of involvement with the company
- Forms of ownership
- Outstanding equity equivalents (i.e., options, warrants, convertible debt)
- Common stock (i.e., authorized or issued)
- Management Profiles
- Provide resumes from each ownership member

#### 5) Service or Product Line

Specific benefits of product or service, describe product/service and its benefits to its potential and current customers.

- Ability to meet customer needs
- Advantages of competition
- Current development stage
- Product Life Cycle
- Existing or Pending Patent/Copyright filings
- R&D being conducted by own company and others in market as well as expected findings

#### 6) Marketing and Sales

- Define market strategy
- Overall Marketing Strategy:
  - Market penetration

- growth strategy (building business)
- Channels of distribution strategy
- Communication Strategy (how to reach customers)

#### 7) Funding Request (optional, whether or not you seek funding)

Include Current Funding requirement, future funding requirements, what you expect to use funding for.

#### 8) Financial Projections

Develop this section only after analyzing market and setting clear objectives.

Include:

- Historical Financial Data
  - income statements, balance sheets, cash flow statements, collateral
- Prospective Financial Data
  - forecasted income statements, balance sheets, cash flow statements
- Short analysis of financial information, ratio and trend analysis of information

#### 9) Appendix

Includes

- Credit History (personal and business)
- Resumes of key managers
- Product pictures
- Letters of Reference
- Details of Market Studies
- Relevant magazine articles or book references
- Licenses, permits, patents
- legal documents
- copies of leases
- building permits
- contracts
- list of business consultants

### Types of Businesses

#### ***Sole Proprietorships***

Sole Proprietorships are the most popular form of business, requiring only one person and little resources to start up. Only one owner can own the company in order for it to be considered a sole proprietorship.

- PROS
  - Start up is very inexpensive and easy
  - Only needs to register his or her name and secure local licenses
  - Can freely mix business and personal assets
- CONS
  - Personally liable for company's debts
  - Rarely survive the death of owner
  - Cannot sell shares in the company

#### ***Partnerships***

A partnership is when two (or more) people join together to form a company. This can be done formally (with documents specifying power etc.) or informally (on a handshake)

- PROS
  - Start up is relatively inexpensive and easy
  - Do not have to pay the minimum tax that is required for corporations or LLCs
  - More sources of capital + knowledge
- CONS
  - All owners are personally liable for the company's debts
  - Partners have to bear with other partner's decisions
  - Poorly organized partnerships (like on a handshake) can lead to conflict regarding decision making etc.

*Other forms of Partnerships:*

- *Limited Partnership* - Allow partners to have limited liability, along with limited input. More attractive to investors of short term projects.

### ***C Corporation***

An C Corporation is the main form of corporation in the United States. It has the power of a person in a legal sense, meaning that it can be sued and commit crimes, but that it can also file lawsuits and buy and sell property.

- PROS
  - Owners are protected from personal liability regarding the debts of the company
  - Can easily turn public
  - Can easily raise capital via selling securities
  - Can easily transfer ownership via transfer of securities
  - Unlimited lifetime
- CONS
  - Annual meetings + many formalities
  - Most expensive to set up
  - Require annual fees and periodic filings to the state

### ***S Corporation***

An S Corporation is a form of corporation that elects to become an s corporation. In order to have an election to become an s corporation, a company must have only one class of stock, have less than 100 shareholders and be a liable entity. Also, shareholders must be US citizens (however certain non-profit corporations can become shareholders)

- PROS
  - Eliminates double taxation
  - Owners are protected from personal liability regarding the debts of the company
- CONS
  - All officers and owners of an s corporation must make a salary
  - Require annual fees and periodic filings to the state

### ***Limited Liability Corporation***

An LLC Corporation is the newest form of corporation in the USA, being founded from the 1960s-1980s (depending on the state). It combines the simplicity of a partnership with the tax benefits of a corporation

- PROS
  - Few ongoing formalities - don't require annual meetings

- Owners are protected from personal liability regarding the debts of the company
- CONS
  - Very hard to go from LLC to a public company. Would likely need a change to a regular corporation before filing to go public.
  - More expensive to set up than partnerships
  - Requires annual fees + filings to the state

### Ethics

Ethics is the study of moral choice and values, and involves choosing between right and wrong. To behave ethically is to choose what is right.

Code of ethics - The level of ethical behavior demanded by an individual, business or culture. Can be very high (very ethical) or very low (very unethical). It is important to have a written code of ethics so that you and your employees are reminded of the importance of acting ethically and know what is considered 'unethical'.

Responsibilities to Customers: All customers should be respected with respect and honesty, and you should avoid misleading or scamming them. Never exaggerate merits of a product or fail to inform them of applicable dangers of a product. Most importantly, all disputes should be handled in a fair manner where both sides of the issue are seen.

Responsibility to Suppliers: As with customers, the key responsibilities are the same. Be fair, honest and respectful to all of your suppliers, and give them enough time to fill your order. Refuse to partake in dishonest and/or illegal schemes and if you decide to change suppliers give your old supplier a fair and honest reason.

Responsibilities to Creditors/Investors: It is important to use the money you receive from creditors with caution and care. Be honest about losses and don't attempt to cover them up.

### Marketing

Market Penetration: Amount of total public that the general item encompasses. For example, percentage of general public using cellphones in general (NOT exclusive to one brand) is market penetration (percentage of people that use it)

Market Share: Amount of the percentage of Market Penetration that one company has. For example, in the cell phone market, Apple would have a percentage of market share of the total amount of cell phone user population.

Market segmentation: the act of segmenting a group of people (demographically, psychographically, geographically) and launch ads/marketing campaigns to gain that entire sectioned off group of people. Each company usually tries to focus their resources on gaining their target market. The act of market segmentation ---> turns into a company's target market

### Taxes

Type of Business	Taxation	Forms Required
Sole Proprietorship	Reported by owners	Form 1040
General Partnership	Reported by owners	Form 1065 and 1040

Limited Liability Corporation	Reported by owners	Form 1065 and 1040
C Corporation	Corporate tax paid + any possible dividend tax (double taxation)	Form 1120 and 1040 (dividend is 1040)
S Corporation	Reported by owner	Form 1120S and 1040

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### Types of economic systems

*Traditional Economy* - Family or community based economic system that relies on history and rituals to make economic decisions. Examples - Aborigines, Indian/Native American Tribes etc

*Market Economy* - Consumer based economic system where the economy relies on the choices of the consumer. Examples - Most developed countries (USA, Japan etc) have some form of market economy but really no one has a totally pure one (see mixed economy).

*Command Economy* - The economy is controlled by the government. Examples - Almost all communist or dictatorship country (Cuba, North Korea etc)

*Mixed Economy* - A market economy mixed with government regulations/involvement. Examples - Most developed economies (USA, Japan etc) are a mixed economy.

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### Miscellaneous

#### Diagrams/Charts:

- PERT Diagram (Program Evaluation and Review Technique) statistical tool for project management, analyze and represent tasks involved in completing a certain project, used to see dependencies and connections of things
- SWOT (Strengths, Weakness, Opportunities, Threats) Analysis evaluates dangers and benefits of projects and business ventures

#### Important terms + formulas:

Scarcity: The basic economic problem that arises because people have unlimited wants but resources are limited.

Demand: An economic principle that describes a consumer's desire and willingness to pay a price for a specific good or service.

Supply: A fundamental economic concept that describes the total amount of a specific good or service that is available to consumers.

Equilibrium point: The state in which market supply and demand balance each other and, as a result, prices become stable.

GDP: The monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

#### Intellectual Property Basics:

Patents: valid 20 years from date of application, only effective within US,

Trademark: Company logo, etc. (as long as renewed)



Copyright: Lifetime of author and 70 years after