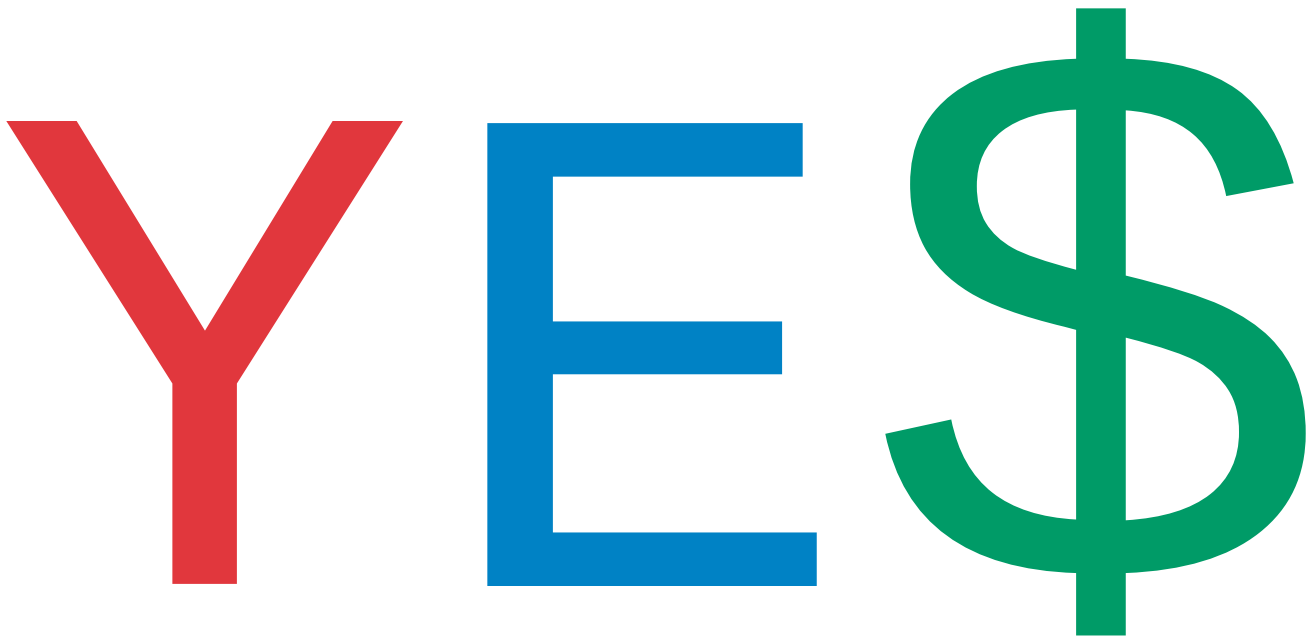




Youth Entrepreneurship

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YOUTH ENTREPRENEURS

INTRODUCTION

The YE\$ curriculum has been designed for use in three ways to strengthen 4-H programming. Extension agents may use the curriculum to:

- Teach lessons in the classroom as a visiting educator or co-teach with the classroom teacher.
- Conduct workshops for educators who would like to have a copy of the curriculum and teach the materials themselves.
- Train volunteer leaders to conduct entrepreneurial activities with members enrolled in 4-H projects. The YE\$ curriculum is designed as an enrichment activity to be integrated with or to supplement existing projects.

The YE\$ program has been developed to support selected TCAP goals, objectives and concepts. The following is only a sampling of the YE\$ program's relationship to the TCAP framework.

GENERAL EDUCATION GOALS

Fundamentals of Learning and Communication

- Comprehend ideas through reading and listening
- Communicate ideas through writing and reading
- Understand fundamental mathematical concepts, principles and skills
- Use scientific problem solving methods such as research, analysis and evaluation

Skills and Attitudes which Facilitate Learning

- Abstract thinking
- Independent studying and learning
- Objective observation
- Opportunities to make choices and mistakes under supportive conditions

Satisfactory Relationships with Other Persons

- Competence in interpersonal and group relationships

Responsible Citizenship

- An understanding of the merits of the free enterprise system

Career Information and Economic Competence

- The acquisition of a sufficient amount of career information with which to decide
- The relationship between aptitudes, interests and one's occupation
- Knowledge, abilities and skills for entry into the world of work upon completion of chosen levels of education
- Have sufficient information to realize his or her life goals



OBJECTIVES AND CONCEPTS

Language Arts

The student will understand:

- location of reference materials
- how to use different sources of information
- basic thinking skills
- the synthesis of information
- methods of inquiry
- summarizing and synthesizing in reading

Math

The student will:

- master skills and concepts necessary for mathematics literacy in a changing technological society
- understand the basic concepts of arithmetic for application to daily living

Social Studies

The student will:

- acquire career information and economic competence
- become a responsible, contributing, informed member of the family, the local community, the nation and the world
- develop skills in oral and written communications, information gathering, critical thinking and problem solving be equipped to cope with change
- learn to appreciate others' ideas

Business Education

The student will:

- understand legal rights and responsibilities related to various personal and business practices
- understand the knowledge required for effective entry-level management of business
- understand the responsibilities of each type of business ownership
- understand the factors that can affect a pricing policy
- understand the importance of planning a total advertising campaign
- grasp the importance of planning
- understand the steps of problem solving
- appreciate the need for continuing research
- manage personal business affairs competently and independently
- furnish students with an understanding of the “world of work” as it applies to technological innovations and business operations
- facilitate and encourage leadership and personal development
- manage work and leisure time
- develop skills and knowledge to compete successfully for jobs in business
- recognize the need for continuous study and growth as an individual through post-secondary education in business
- develop desirable work habits and attitudes in realizing the value of work



Marketing Education

This curriculum will meet the needs of persons who have entered or are preparing to enter an occupation or entrepreneurial venture requiring competencies in marketing.

United States History

This curriculum will enable the student to understand the role entrepreneurs have played in United States history.

Vocational Home Economics

This curriculum will:

- give consideration to economic, social and cultural conditions and needs of families
- contribute to the employability of youth as they assume the roles of homemaker/wage earner

Language Arts

These curricula will enable the student to:

- understand basic thinking skills
- understand how decisions and habits can affect well-being
- develop creative thinking skills

Economics

The student will understand that:

- the free enterprise system is based on the premise of a free market
- the focus of economic activity lies in the production of goods and services for human consumption

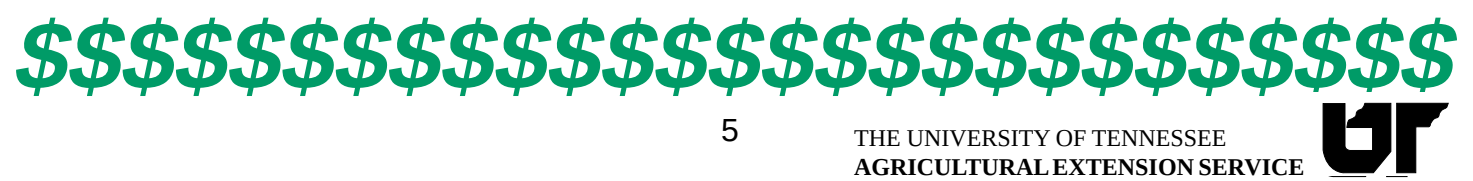
Vocational Agriculture

The student will develop:

- competence in at least one agricultural work area (entrepreneurship and employment) through classroom, laboratory, shop and supervised occupational experience programs including record keeping and cooperative education
- problem solving skills

Health Occupations

The student will acquire career information and economic competence



YE\$ and the 4-H Projects and Activities

YE\$ is intended as an enrichment activity to be integrated into current 4-H projects and activities. 4-H'ers will only be limited by their own creativity and imaginations as they incorporate these concepts into their projects.

Following are some examples of how the YE\$ program might be incorporated into some of the projects.

Arts and Crafts	Establish a consignment shop for members of the arts and crafts project group.
Automotive	Establish a washing and waxing or car inspection business.
Bicycle	Open a bicycle repair business.
Child Care	Organize a babysitting service. Recruit and train project members as employees.
Clothing	Begin a specialty clothing or accessory production business.
Consumer Education	Start a shopper service for dual-earner families.
Electric	Establish a small electrical appliance inspection and/or repair business.
Horse	Give riding lessons.
Gardening	Establish a fresh produce sales business offering home delivery.
Home Environment	Establish a "paint a room" business or "we do borders" operation.
Outdoor Cookery	Establish catering service for summer reunions and parties.
Photography	Specialize in pictures for family or high school reunions (photographs or videos).
Recreation	Organize summer activities for children.
Small Engine	Organize a small engine maintenance business.



What is an Entrepreneur?

Lesson 1

Target Audience:

High school youth

Materials needed:

- Overhead transparencies
- Handouts

Objectives:

Students will learn:

- the definition of entrepreneurship
- cultural environment needed for success
- types of entrepreneurs

Before you start:

- Prepare handouts for student activity
- Prepare transparencies

What to do:

Introduction

Henry Ford and John D. Rockefeller were successful entrepreneurs. J.P. Morgan was not. Thomas Edison was both inventor and an imaginative entrepreneur; Samuel F.B. Morse was a business failure.

Success or failure does not measure the difference between an entrepreneur and a business person. An individual's creative approach to the development, production or marketing of a product or service measures his or her success.

Definition

The entrepreneur is a person who formulates a new idea and carries it successfully into the economy.

(Transparency 1-1)

The entrepreneur:

1. Becomes aware of a need (product or service)
2. Creates a business enterprise to fulfill that need

(Transparency 1-2)

Entrepreneurs do new things or do old things in new ways and so change the business system.

(Transparency 1-3)

The entrepreneur:

1. Estimates probable importance of a product or service
2. Estimates consumer demand for the product or service
3. Knows how to produce the product or service
4. Plans how to deliver the product or service

Only the entrepreneur has the vision, courage, ideas and creativity to develop a new business idea and carry it to success.



Cultural Environment for Successful Entrepreneurship

Entrepreneurs have made capitalism in the United States a success.

English Common Law, The Declaration of Independence, the U.S. Constitution and later state laws all provide the legal framework in which the entrepreneur can operate.

The cultural environment is a key element for the entrepreneur. The United States, which is different from many other countries, encourages entrepreneurship.

Our society encourages individuals to be all they can be. Economic opportunities should be open to all. Americans also assume that change is normal and usually represents progress. Entrepreneurial activities are encouraged and rewarded.

Types of Entrepreneurs

No single description describes an entrepreneur. There are many different kinds of entrepreneurs.

(Transparency 1-4)

Technical Entrepreneurs

These individuals have a strong technical orientation. They love inventing things and developing ideas for new products. Developing new markets and even new industries based on state-of-the-art technologies are generally the goal of those with technical orientation. The creation of an organization is merely the means to achieving their goals, not an end in itself.

(Transparency 1-5)

Organization Builders

Some entrepreneurs start their own businesses because they like to build organizations. These organization builders generally have skills in developing people, systems and structures. Such entrepreneurs also generally enjoy working with people and using power and influence, in contrast to the technical entrepreneur, who often prefers working alone and dislikes “playing politics.”

(Transparency 1-6)

Deal makers

Deal makers enjoy making the initial deal to start a new venture and often enjoy some start-up activities. However, unlike the organization builders, they dislike having to manage and commit themselves to an organization over the long run.

Student Activity

Break class down into small groups. Give each group a profile of a famous entrepreneur. Have them discuss and then report to the class why these people are considered successful entrepreneurs.



manufacture of his reaper, and by 1850 had become the sole owner of a manufacturing plant. By then, he was only one of 30 companies manufacturing reapers, many of which had borrowed or stolen his design. His success came from his skill in manufacturing and marketing rather than from patents or royalties on his invention.

His novel approach included advertising, when advertising was not yet established, and by offering buyers easy credit terms at a time when buying on credit was unknown. In 1856, a farmer could buy a reaper for a \$35 down payment, and freight costs from Chicago, with the balance of \$125 due December 1. McCormick dominated the reaper market until almost 1870 when the improved Marsh harvester came on the market. McCormick then began to diversify. He began producing plows, hay bailers and other implements. This created marketing wars between McCormick's Harvesting Company and Deering Plow Company. These ended with the creation of McCormick-Deering International Harvester Company in 1903.

Thomas Alva Edison not only invented, but perfected, produced and marketed, electric lights, generator systems, phonographs, storage batteries, dictating machines, the mimeograph and moving-picture projectors.

Born in 1847, in Milan, Ohio, Edison had little formal education. At age 12, he was selling newspapers and candy on a passenger train. He became a telegraph operator in 1863. He was always a tinkerer and experimenter. In 1869, Edison patented his first inventions, a vote recorder and a stock ticker. He began manufacturing both and they were profitable. He organized the first commercial research laboratory in the United States at Menlo Park, New Jersey. Within a few years, he developed a carbon telephone voice transmitter, the phonograph and the carbon filament light bulb.

Edison needed \$500,000 in capital to improve and market his light bulb. Bulbs without electric transmission and generating systems were useless. He obtained financial backing from J.P. Morgan. He built generators and transmission lines, and in 1882 turned the switch lighting the Morgan offices in New York City with incandescent lights. Edison's lighting systems were not only better, but also less expensive than the current gas lights. Within a decade gas lighting had given way to electric.

The Edison Lamp Company manufactured the bulbs and the Edison Electric Light Company built the generators, laid the underground cables and installed the wiring in buildings. In 1889, these firms combined to form Edison General Electric, and Edison retired to his laboratory at Menlo Park.

In 1892 Thompson-Houston Company was organized by two high school science teachers (Elihu Thompson and E.J. Houston) to build improved electrical generators. It merged with Edison General Electric to become General Electric Company.

Herbert Edwin Land was born in 1909 in Bridgeport, Connecticut. Land attended Harvard University, where he became interested in the polarization of light. He developed a plastic sheet that would not produce a flare or bright reflection. In 1933 in a basement laboratory, he began to manufacture anti-glare plastic sheets and camera filters. In 1936 he organized American Optical Company to manufacture sunglasses using the new plastic lens. The following year he organized Polaroid Company, and obtained patents on his plastic and its process of manufacture.

Land next developed a new film process that made "3-D" movies possible. Although Polaroid did well financially, Land's most important development was the invention of a one-step photographic process that allowed the instant development of a picture. Polaroid began production of the revolutionary Polaroid Land



Camera in 1949, and followed with the production of color cameras in 1969. Land's new process competed directly with the giant Eastman Kodak Company, which had enjoyed a near monopoly on photographic processing since the 1880s. By 1973, Polaroid was manufacturing 25,000 cameras a day, but Kodak had responded with its own instant photography. Land, as Edison, retired from active management of the company and returned to his labs.

Often a firm becomes an extension of the owner-manager's personality. An example is **Mary Kay Ash**. She formed Mary Kay Cosmetics in 1963 with \$5,000 in capital (her own money). By 1979 the firm had sales exceeding \$90 million and a net income of more than \$9 million. She produced a line of cosmetics sold by sales representatives whom she called "beauty consultants." By 1980, she had 70,000 consultants who marketed the firm's five basic, pink-packaged products.

Unlike firms such as Avon, which had many products in their catalogues, Mary Kay Cosmetics sold a limited line, most of which it manufactured. The consultants held "beauty shows" for small numbers of women in private homes where they showed the products. They had no territories and no franchises. Mary Kay Ash motivated her sales force with an almost evangelistic fervor, and some "consultants" had yearly earnings in excess of \$100,000.

The secret of her marketing success was the mobilization of female sales personnel. Mary Kay Cosmetics took advantage of the changing role of women in the 1970s and an untapped labor pool to develop a unique approach to marketing.

An annual convention would attract as many as 8,000 consultants, who received pink cars, vacations, jewelry and mink coats as rewards for successful sales. They sang "Mary Kay Enthusiasm," and attended sales seminars led by Mary Kay. The absence of territories allowed her consultants to transfer their work when their husbands moved. They paid for the cosmetics in advance so there were no accounts receivable. Until recently, national advertising was very limited. As the consultants enthusiastically sold their line, they were taught goal setting and self-motivation and received public recognition for their achievements.

As a young man, **Ray Kroc** became a successful salesman and regional sales manager for Lily-Tulip Cup Company. In 1937, after 17 years of service, he left Lily and became the exclusive distributor for the Prince Castle Multimixer, a machine that could mix six milkshakes at once. In 1952, Kroc was intrigued and puzzled by an order for eight multimixers for a single restaurant in San Bernardino, California.

Kroc flew to California and met Richard and Maurice McDonald. Their hamburger drive-in restaurant stressed cleanliness, efficiency and an assembly-line process of cooking low-priced hamburgers that they served minutes after being ordered. The original drive-in also featured the famous golden arches. They impressed Kroc. He obtained a contract from the McDonalds giving Kroc exclusive franchise rights for the restaurants. Kroc was to receive \$350 from each franchiser and 1.9 percent of gross receipts, of which 1.4 percent went to Kroc and 0.5 percent to the McDonalds.

In 1957 he had 37 franchised restaurants. By 1959, more than 200 were in operation. In the 1960s, franchisers clamored for McDonald sites. Kroc bought out the McDonalds' interest in the operation for \$2.7 million, and in 1963 sold McDonalds' stock to the public. The stock, offered at \$22.50 per share, quickly rose to \$50. By 1980, McDonald's had become an international household word, and young Americans were literally being weaned on McDonald's hamburgers. Sales exceeded \$6 billion annually. While Kroc had not created or



invented the McDonald “system,” he assumed control and converted a small family enterprise into the largest and most successful fast-food business in America. In so doing, he helped to alter our eating habits and those of millions abroad. Ray Kroc is a good example of the owner-manager as entrepreneur.

The son of Italian immigrant parents, **Lee Iacocca** was born in Allentown, PA in 1924. His father made a fortune in real estate, but lost it in the Great Depression.

One of his businesses included car rentals, mostly Ford cars, and young Lee set his life’s goal to become a Ford Motor Company executive. After graduating from Lehigh University in 1945, he joined Ford’s executive training program and then went to Princeton for a master’s degree in 1946. He became a district salesman for Ford in Pennsylvania, and by 1960 had become a general manager of the Ford division of the company.

A brash, colorful, outspoken executive, his success in developing sales campaigns brought him to the attention of Robert McNamara, one of Ford’s “bright young men,” and Henry Ford II. As head of Ford division, Iacocca, striving to develop a new, “sportier” Ford, spent \$50 million creating the Mustang, which appeared in 1964. The car was a brilliant success, and Iacocca joined the board of directors of Ford in 1965. During the next 15 years he moved up in the corporate structure of Ford to become Chair of the Board and Chief Operating Officer in 1979. They assumed that he was Henry Ford’s heir apparent, but the founder’s grandson fired Iacocca. He then took over the ailing Chrysler Corporation.

In 1980, Chrysler Corporation was an industrial disaster. Never fully recovered from World War II, its dealer network had been in trouble for more than a decade. Its cars were not stylish or well built. Losses in 1974-1975 led to cutbacks in research and development, and a massive overseas investment program was a gross error. The company lost \$205 million in 1978 alone.

Iacocca devised a grand strategy to save the corporation. He closed plants and cut the labor force from 140,000 to 79,000. He convinced the United Automobile Workers union to take pay cuts, but put a union representative on the Chrysler board of directors. Iacocca went to Washington and arranged for \$1.5 billion in federally guaranteed loans. Despite considerable political opposition, he received the loans. Chrysler creditors and suppliers had to accept reductions in debts and prices to keep the company alive.

More dramatically, Iacocca went on television himself to sell Chrysler products and to preach the survival of the firm. He emphasized the quality of the new K-cars and his determination to save Chrysler. While cutting costs by \$1.2 billion between 1981 and 1983, he also introduced new styles of cars, including a production-line convertible.

The recession of 1981-1982 made all these efforts questionable. An issue of *Fortune* in February 1981 said the future of Chrysler was “bleak.” However, they had cut the break-even point by half. Chrysler’s market share rose to more than 10 percent and increasing sales in 1983 produced profits. This allowed Iacocca to pay off the federally-guaranteed loans far ahead of schedule. Chrysler now looks like a major automobile firm again.

Steven P. Jobs and Stephen G. Wozniak graduated from Homestead High School in Santa Clara, California, in the heart of the developing “Silicone Valley.” They were self-taught computer whizzes who began to work together at the Home Brew Computer Club in Palo Alto, where various electronics companies employed them. The two Steves decided that a small, multi-use, essentially portable computer was badly needed.



They worked together in Jobs' parents' home designing the computer, and then went on to build one in the garage. They were so satisfied with what they built that they took it to a local computer store owner who ordered 25 of the computers. Jobs and Wozniak, then in their early 20s, went on to personally build and fill the orders even as demand soared. The business quickly outgrew the two Steves.

At this critical point, **A.C. Markkula**, a marketing manager with Intel Corporation, which manufactured integrated circuits, offered his financing and marketing expertise. He invested \$91,000, obtained additional credit and soon attracted \$600,000 from other investors. Markkula became chair of the Board of Directors in May 1977.

Markkula is an excellent example of the modern manager-entrepreneur who directed the firm from a fledgling operation into a giant enterprise. One of his great changes was, with the aid of the public relations firm of Regis McKenna, to market the Apple as an inexpensive “home personal computer,” rather than an expensive minicomputer. The idea was to have a computer in every home, just as there was a car in every garage or a television set in every den.

Expanding sales and production required new capital. In 1980, Apple Computers sold stock to the public. Shares were offered at \$22, and quickly rose to \$29 and later to \$33 per share. In that year, Apple sales were \$117 million, with earnings of \$11.7 million. It was estimated at the time that Steven Jobs, then 25, held stock worth \$165 million. Markkula and Scott held shares valued at \$154 and \$165 million respectively.

Expanded Meeting

The Entrepreneur

Not all individuals have the traits needed to become successful entrepreneurs. Entrepreneurs are central to the well-being of our economy. Entrepreneurs must be creative and innovative. Society exerts both positive and negative influences on the entrepreneur.

A merchant in a Middle Eastern bazaar who simply buys and resells traditional goods is not an entrepreneur. However, the occupant of the next stall who finds new products, studies the local consumer and introduces fresh marketing techniques is truly an entrepreneur. This merchant is like A.T. Stewart, who created the American department store in the nineteenth century.

They are “movers” and “shakers.”

Entrepreneurs seek good relations with labor, government and the public.

The entrepreneur does not have to invent something that represents a technological breakthrough to start a successful new company. Most new ventures are based upon the extension of proven ideas. The enterprise will also include marketing a product or service and will require labor and capital. Money can be found from personal savings or income, the sale of stock or by borrowing.

The entrepreneur begins with an idea, or the adaptation of an existing idea. The first problem the enterprising business person must resolve is to decide if there is a need for the product or service. Is the product or service distinctive, unique or superior to others in the market? What costs are involved in the manufacture of



the product or service? Finally, what will a consumer be willing to spend? With this data, much of it necessarily “soft” or assumed, the entrepreneur can project the possibilities of profit or loss.

The entrepreneur contributes much to vitality and to progress in the American economic system. The entrepreneur differs from the ordinary business person in that he or she is an innovator and explorer. The entrepreneur opens a new frontier in the development, production or marketing of an object or service. The entrepreneur deals with new ideas. One must have the vision, courage and creativity to develop a new idea and manufacture or market it in a successful business enterprise.

Our society encourages entrepreneurship by protecting rights to private property and by encouraging the accumulation of property. Our laws enable an individual to organize and conduct a business without too much interference. Our culture, that is, the framework of our laws and social values, emphasizes individualism and self-determination. We believe in change, development and progress. Our society emphasizes opportunity and encourages risk-taking. In such an environment, entrepreneurial activities have flourished.

Summary:

The inventor-entrepreneur, such as Thomas Edison, Cyrus McCormick and Herbert Land, moved beyond the first phase of pure invention to the entrepreneurial function of producing and marketing the product. The entrepreneur may also be an owner-manager, as is Mary Kay Ash, whose innovative marketing system created the \$100 million Mary Kay Cosmetics enterprise. Similarly, Ray Kroc, who was the building genius of McDonald’s Corp., revolutionized the marketing of hamburgers and contributed to the creation of the modern “fast foods” industry.

Some entrepreneurs are largely managers who risk little of their own capital. Through skillful and innovative management and marketing techniques, they create successful business enterprises where they might not have otherwise existed. Lee A. Iacocca of Chrysler Corporation is one of these creative managers.

Although by definition entrepreneurship involves doing something new, or something old differently, there are basic rules, structures, laws and taxes with which the entrepreneur must struggle. One basic rule of both business and entrepreneurship is to obtain as much knowledge and information relating to the venture as possible. After that, the entrepreneur sets out boldly into a new frontier where many old rules and much of the old information no longer apply.

It is a daring and important journey, a path beset with hazards and pitfalls, that sometimes leads to great personal satisfaction or to great profits. It often leads to a more productive and satisfying economy and society, enriching all our lives.

(Transparency 1-8)

The entrepreneur is an average person. Forty percent have a high school education or less, women are as likely to succeed as men and most did not plan to own their own business.

(Transparency 1-9)

Self explanatory.



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The Entrepreneur:

- 1. Becomes aware of a need
(product or service)**
- 2. Creates a business to fulfill
that need**



Entrepreneurs

do new things or do old things in new ways

The Entrepreneur:

- 1. Estimates importance of product (or service)**
- 2. Estimates consumer demand**
- 3. Knows how to manufacture product**
- 4. Plans how to deliver product**

Types of Entrepreneurs

1. Technical

These individuals have a strong technical orientation. They love inventing things and developing ideas for new products. Developing new markets and even new industries based on state-of-the-art technologies is generally the goal of those with this technical orientation, and the creation of an organization is merely the means to achieving their goals, not an end in itself.

Types of Entrepreneurs

1. Technical

2. Organization Builders

Some entrepreneurs start their own

businesses because they like to build

organizations. These organization builders

generally have skills in developing people,

systems and structures. Such entrepreneurs

also generally enjoy working with people and

wielding power and influence, in contrast to

the technical entrepreneur, who often prefers

working alone and dislikes "playing politics."

Types of Entrepreneurs

- 1. Technical**
- 2. Organization Builders**
- 3. Deal Makers**

Deal makers enjoy making the initial deal to start a new venture and often enjoy some of the start-up activities. However, unlike the organization builders, they dislike having to manage and commit themselves to an organization over the long run.

Student Activity

The Inventor as Entrepreneur

James Watt did not invent the steam engine. He was an English mechanic who devised a condenser that helped perfect and improve the steam engine. Watt was a mechanic trying to repair a steam engine built by Thomas Newcomen in about 1712. The machine was slow, bulky and powerless. Watt's condenser enabled the steam engine to double the power. Watt then obtained patents and financial backing and began manufacturing his greatly improved engine in 1769.

"The New Entrepreneur"

Most are a pretty average lot:

- **40% have high school education or less**
- **Women succeed as often as men**
- **Most did not plan to own their own business, but it came about because of circumstance (being fired is the number 1 reason)**

Ordinary People Doing Extraordinary Things

Mary Kay Ash

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Agricultural Extension Service
Billv G. Hicks, Dean

Handout 1-4



Ray Kroc

As a young man, **Ray Kroc** became a successful salesperson and regional sales manager for Lily-Tulip Cup Company. In 1937, after 17 years of service, he left Lily and became the exclusive distributor for the Prince Castle Multimixer, a machine that could mix six milkshakes at once. In 1952, Kroc was intrigued and puzzled by an order for eight multimixers for a single restaurant in San Bernardino, California.

Kroc flew to California and met Richard and Maurice McDonald. Their hamburger drive-in restaurant stressed cleanliness, efficiency and an assembly-line process of cooking low-priced hamburgers that they served minutes after being ordered. The original drive-in also featured the famous golden arches. Kroc was impressed. He obtained a contract from the McDonald's in giving Kroc exclusive franchise rights for the restaurants. Kroc was to receive \$350 from each franchiser and 1.9 percent of gross receipts, of which 1.4 percent went to Kroc and .5 percent to the McDonalds.

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Agricultural Extension Service
Billy G. Hicks, Dean

Handout 1-5



The son of Italian immigrant parents, **Lee Iacocca** was born in Allentown, PA in 1924. His father made a fortune in real estate, but lost it in the Great Depression. One of his businesses included car rentals, mostly Ford cars, and young Lee set his life's goal to become a Ford Motor Company executive. After graduating from Lehigh University in 1945, he joined Ford's executive training program and went to Princeton for a master's degree in 1946. He became a district salesperson for Ford in Pennsylvania, and by 1960 had become a general manager of the Ford division of the company.

In 1980, Chrysler Corporation was an industrial disaster. Never fully recovered from World War II, its dealer network had been in trouble for more than a decade. Its cars were not stylish or well built. Losses in 1974-1975 led to cutbacks in research and development, and a massive overseas investment program was a gross error. The company lost \$205 million in 1978 alone.

Iacocca devised a grand strategy to save the corporation. He closed plants and cut the labor force from 140,000 to 79,000. He convinced the United Automobile Workers union to take pay cuts, but put a union representative on the Chrysler board of directors. Iacocca went to Washington and arranged for \$1.5 billion in federally guaranteed loans. The loan was granted against considerable political opposition. Chrysler creditors and suppliers had to accept reductions in debts and prices to keep the company alive.

More dramatically, Iacocca went on television to sell Chrysler products and to preach the survival of the firm. He emphasized quality and his determination to save Chrysler. While cutting costs by \$1.2 billion between 1981 and 1983, he also introduced new styles of cars, including a production-line convertible.

The recession of 1981-1982 made all these efforts questionable. An issue of *Fortune* in February 1981 said the future of Chrysler was “bleak.” They had cut the break-even point by half. Chrysler’s market share rose to more than 10 percent, and increasing sales in 1983 produced profits. This allowed Iacocca to pay off the federally guaranteed loans far ahead of schedule. Chrysler now looks like a major automobile firm again.



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Handout 1-6



Is Entrepreneurship For You?

Lesson 2

Target Audience:

High school youth

Lesson Objectives:

Students will learn:

- Why people become entrepreneurs.
- Some skills required to become entrepreneurs.
- To conduct a personal assessment.
- To match skills and likes with entrepreneur possibilities.

Materials needed:

- Chalk board and chalk
- Handouts

Before you start:

- Prepare handouts
- Make transparencies

What to do:

(Transparency 2-1)

Introduction

Each year more than 600,000 new businesses are started and millions of others are dreamed of but never become a reality. Why do you think people become entrepreneurs? (Teacher will write student responses on the board.)

(Transparency 2-2)

Independence Many people want to be their own bosses.

(Transparency 2-3)

Money Many people become entrepreneurs to increase household income (extra money).

(Transparency 2-4)

Employment Starting a business or becoming an entrepreneur is an option when companies close or lay off employees.

(Transparency 2-5)

Balance family Families with small children may see becoming entrepreneurs as an option to spending more time with family and decreasing child care cost.

(Transparency 2-6)

Personal satisfaction Entrepreneurship provides an opportunity to create a job that makes one happy and provides personal fulfillment.

Most people are really not aware of what it means to be a business owner. Let's see what you think about being a business owner.



(Handout 2-1)

Teacher will elaborate on responses by discussing information that students may not have included in their response. Repeat this procedure until all questions have been discussed.

(Responses to Handout 2-1)

- _____ 1. Most people who own a business become rich.
It is advisable that a person not become a business owner to get rich. Most businesses do not show profit for several years. Therefore, it is smarter to get involved in a business that allows you to do something you enjoy.
- _____ 2. Owning a business means working fewer hours and earning more money than working for someone else.
A business owner will be required to put in many hours if having a successful business is important. Remember, when you own a business, you work for yourself and no work usually means no income. Therefore, if you are not willing to work long hours, becoming a business owner may not be right for you.
- _____ 3. Most business owners have a college degree in business administration.
Many business owners do not have a college degree. In fact, becoming a business owner is an option for consideration if you have hobbies and interests that can be transferred into an income. The most important thing to keep in mind is becoming a business owner requires hard work and long work hours.
- _____ 4. Owning a business involves little risk; you just have to be willing to work hard.
A business owner must be willing to take some risk. All businesses are not successful. It will be important to conduct research to determine if your business idea is likely to be successful in the area in which you live.
- _____ 5. Business owners can expect to make lots of money and work fewer hours after the first year.
It usually takes more than one year for a business owner to see a profitable return. Business owners must be patient and persistent.

\$

Is Business Ownership For You?

Which of the following things do you really enjoy doing?

- _____ Organizing events
- _____ Being around people (children or elderly)
- _____ Helping others reach goals
- _____ Making decisions
- _____ Getting groups together to do projects
- _____ Inventing things
- _____ Designing things
- _____ Drawing
- _____ Writing
- _____ Conducting experiments
- _____ Teaching and working with people
- _____ Helping people solve problems
- _____ Listening to others
- _____ Helping people understand things
- _____ Working alone
- _____ Identifying jobs that need to be done and doing them
- _____ Making decisions without a lot of input from others
- _____ Working closely with others
- _____ Sharing with others
- _____ Working with the public
- _____ Meeting new people
- _____ Impressing people you meet
- _____ Building things
- _____ Fixing things
- _____ Operating tools
- _____ Participating in sports
- _____ Operating tools/equipment
- _____ Lifting heavy objects
- _____ Working outside
- _____ Working inside



Using the items you checked on the list above name at least three businesses you might enjoy which would require you to have one of the skills you checked above.

1.

2.

3.

(Transparency 2-9)

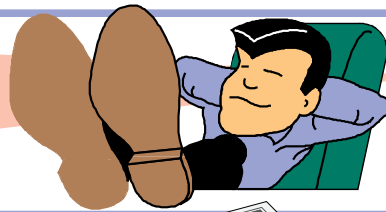
Show video “Why Didn’t I Think of That?”



Is Entrepreneurship For You?

Independence

To become the boss



Money

To get rich



Employment

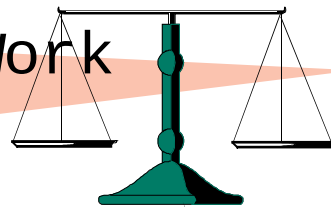
Job options



Balance Family & Work

more time for family

less child care cost



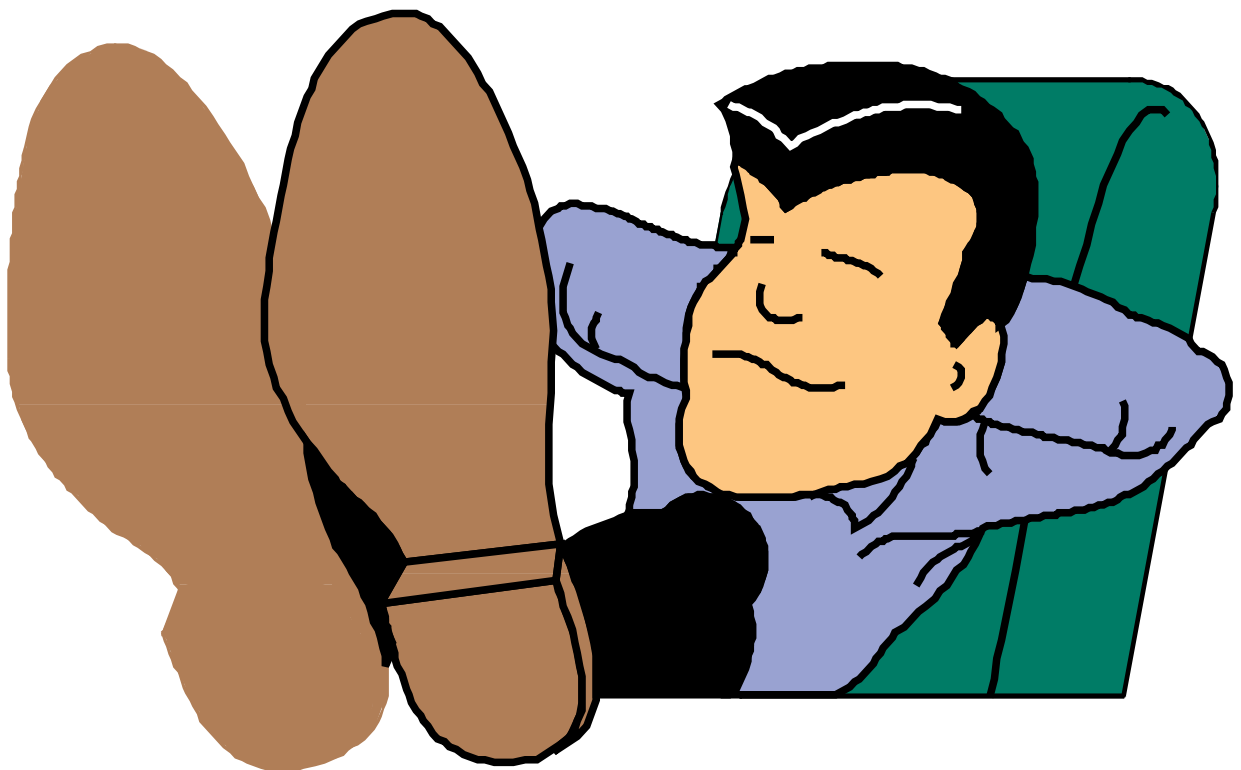
Personal Satisfaction

Create happiness & satisfaction



Independence

To become the boss



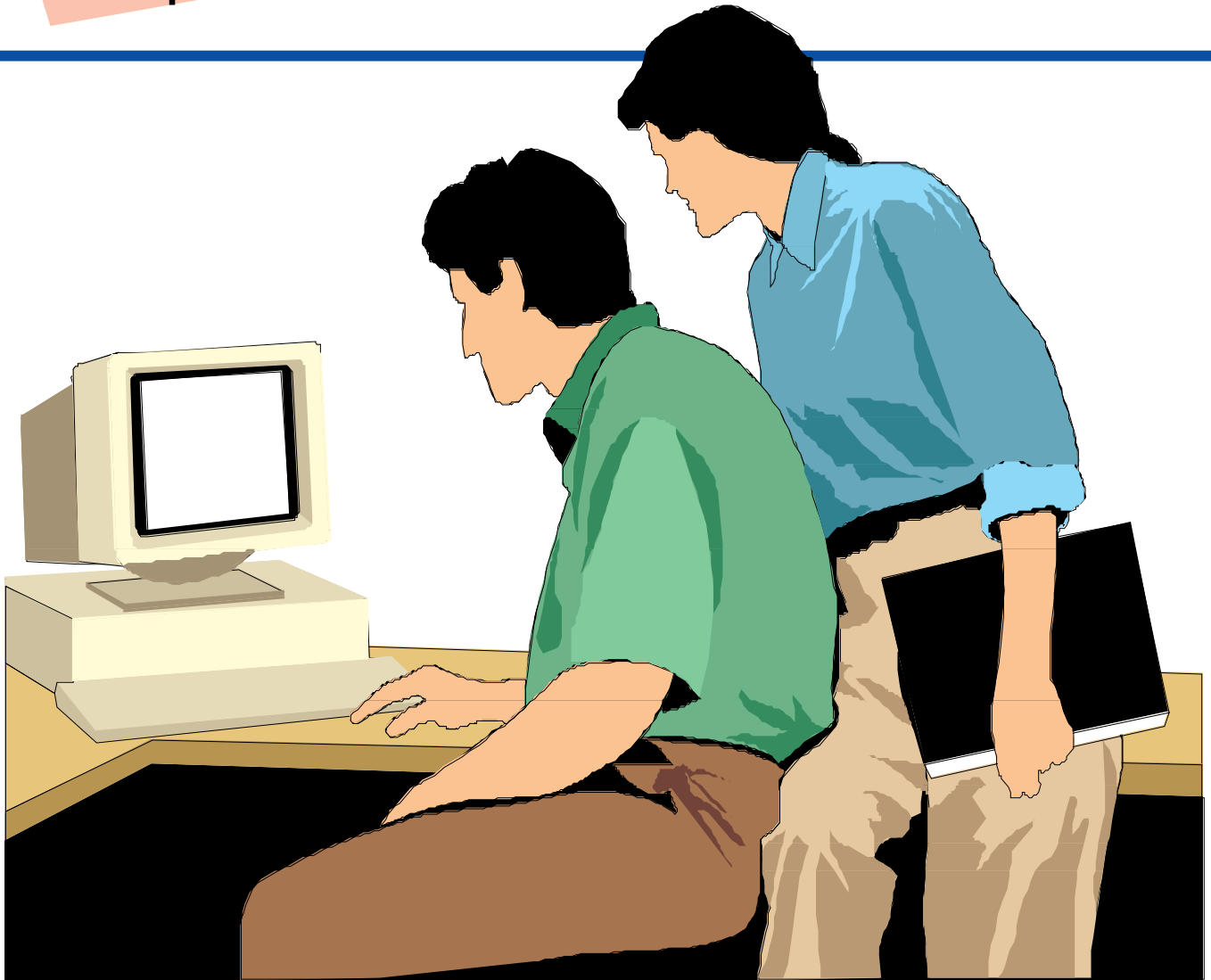
Money

To get rich



Employment

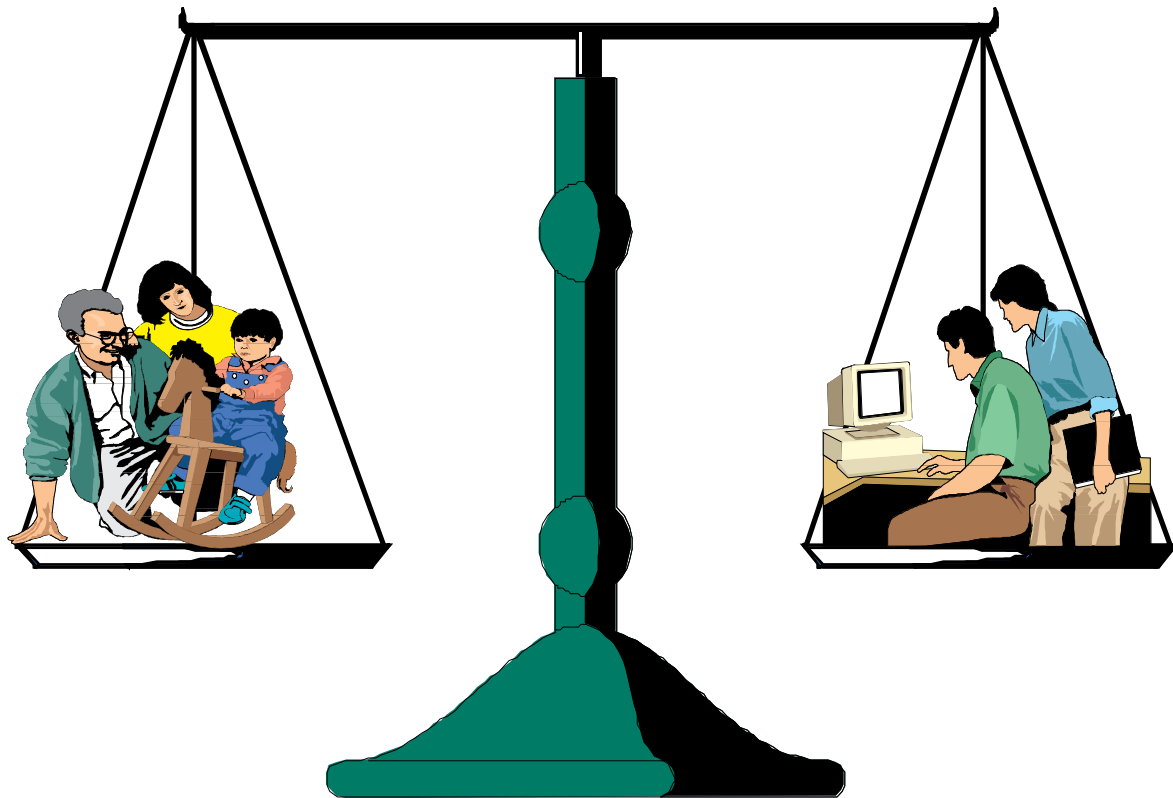
Job options



Balance Family & Work

More time for family

Less child care cost



Personal Satisfaction

Create happiness & satisfaction





ASSESSMENT

Categories

Services Products



Creative Thinking

- _____ 1. Most people who own a business become rich.
- _____ 2. Owning a business means you can work fewer hours and earn more money than if you work for someone else.
- _____ 3. Most business owners have a college degree in business administration.
- _____ 4. Owning a business involves little risk; you just have to be willing to work hard.
- _____ 5. Business owners can expect to make lots of money after they have been in business at least one year.



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handout 2-1

\$

Which of the following things
do you really enjoy doing?

Complete this sheet about yourself

- ☐ Organizing events

☐ Being around people (children or elderly)

☐ Helping others reach goals

☐ Making decisions

☐ Getting groups together to do projects

☐ Inventing things

☐ Designing things

☐ Drawing

☐ Writing

☐ Conducting experiments

☐ Teaching and working with people

☐ Helping people solve problems

☐ Listening to others

☐ Helping people understand things

☐ Working alone
- ☐ Identifying jobs that need to be done and doing them

☐ Making decisions without a lot of input from others

☐ Working closely with others

☐ Sharing with others

☐ Working with the public

☐ Meeting new people

☐ Impressing people you meet

☐ Building things

☐ Fixing things

☐ Operating tools

☐ Participating in sports

☐ Operating tools/equipment

☐ Lifting heavy objects

☐ Working outside

☐ Working inside



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Agricultural Extension Service
Billy G. Hicks, Dean

handout 2-2

\$

Business Ideas That Work

Lesson 3

Target Audience:

High school youth

Objectives:

Students will learn

- Where to look for business possibilities
- How to select the business that's right
- Characteristics of entrepreneurs
- High-growth opportunities for the 1990s

Materials needed:

- Overhead transparencies
- Handouts

Before you start:

- Prepare handouts
- Make transparencies

Introduction

Too often, the eager entrepreneur chooses a particular kind of business that's right for someone else, but totally wrong for him or her.

Match your business to:

- Your background
- Your interests
- Your experiences
- Your skills
- Your talents

Next, consider your personal goals and the kind of life style you want. Only pursue ideas you can consider with enthusiasm. It is important to select a business that satisfies your personal goals and your life style, which involves the kind of work you like to do and are good at doing.

If you enjoy and find satisfaction in your work, you are much more likely to do an outstanding job. And, if you do an outstanding job, you are much more likely to succeed.



Business Possibilities

Once you have a good understanding of what you want to get out of running your own business, it's time to develop a list of the kinds of businesses you might consider. Don't get too involved in the evaluation of each one. Just sort out those you are not qualified to do and those you would definitely not enjoy doing.

(Transparency 3-1)

Where to Look for Business Types

- Telephone yellow pages
- Neighborhood business community/shopping centers
- SBA (Small Business Administration)
- Public library (Thomas Register, Franchise Operations Direction, etc.)
(Remember: You are looking for types of businesses, not specific business opportunities.)
- Entrepreneurial magazines
 - “Income Opportunities”
 - “Entrepreneur”
 - “Spare Time”
 - “Success”
 - “Money”and other similar tabloid and newsletter publications
- People you know—friends, associates, neighbors, relatives, etc. What type of businesses are they in?
- Yourself—original ideas
- List jobs that people generally:
 - Hate to do
 - Do not have time to do
 - Do not have the energy to do
 - Find inconvenient to do

(Transparency 3-2)

Now, rate each business idea as it meets your own personal goals and what you want to achieve. Your list should now be down to a few. To make your final selection:

- Talk to people in the same or similar business
- Check success and failure reports
- Ask professionals' advice (lawyers, accountants, consultants, bankers, etc.)
- Share your thoughts with family, friends and associates. Be sure to ask people who will be honest with you—not people who will tell you what you want to hear.
- Make the final decision yourself.

Remember, most new companies are not started on the basis of totally new or original ideas. Most are simply based on old ideas that have been updated, current ideas repackaged for a new market, straightforward extensions of an existing product and products that are designed to fit into a niche between existing larger competitors. This is one of the reasons why ordinary people can start extremely successful businesses. It is not necessary to be an innovative genius to come up with a suitable idea. Many of the most profitable, and fundable, low-risk ventures are merely mundane-looking extensions of existing products. One of the best places to look for specific first-product ideas is right under your nose: in the development direction of product lines already being marketed in your target area.



What is required? What will sell?
What will the market demand next year?

Criteria for First Products or Services

It is important to remember that the product that is one firm's home-run may be another firm's disaster. Success and failure are determined by the nature of the organization and the people who will use the product or service. The criteria for a beginning company's first product are particularly stringent, due to the organization's extreme limitations in terms of staff, experience, market contact, capital and every other factor needed to make a new product or service sell.

Develop Expertise and Broaden Knowledge

Entrepreneurs succeed because they know how to do something well, such as marketing, technical development, manufacturing or finance. They also tend to have an intimate knowledge of a particular market or industry. The key for the prospective entrepreneur is to understand what he or she does particularly well. Such knowledge might be gained by interviewing former and current employers, co-workers or classmates, past and present customers of one's services or others who have knowledge of one's talents and abilities. One's academic record may be somewhat related to one's skills and abilities, but is more often related to one's interests.

While specific skills are important, a broad knowledge of the world and of people is also important. For entrepreneurs to be innovative and effective, they must make connection with a broad range of ideas and a variety of people. Good judgment and good business sense are critical. Most successful entrepreneurs are down-to-earth, practical-minded people. Those thinking about an entrepreneurial career should see it as a natural progression in their personal and professional lives, rather than a leap of faith into the unknown.

(Transparencies 3-3)

Some High-Growth Opportunities for the 1990s

I. Low Technology

Service chains: medical, dental, optometric, physical therapy, funeral

Translation services

Courier services

Computer and software retailing

Sportswear and sports equipment manufacturing and marketing

Buyer protection: home and auto inspection, etc.

Word processing and rapid print bureaus

Health/beauty/fat farms and salons

Local airlines and other common carriers

Contract training services

Specialty foods (organic, low cal, Kosher)

Specialty restaurants



Support systems for working women (health care, shopping, child care)

Secondary oil field recovery

Fast ASIC fabrication systems



- Personal security devices and systems
- Diamond and other hard coatings
- Hardy crop plants (resisting drought, salty soil, etc.)
- Superconductor applications
- Economic uses of waste streams

(Transparency 3-4)

Business Ideas for Teens

Babysit

Plan birthday parties

Wash cars

Pet care

- Walk dogs
- Feed and water pets for vacationers
- Clean cages
- Bathe and groom animals

Run errands

Elderly helper

Rent-a-kid

Homework helper

Pick up mail and newspapers for vacationers

Water flowers/shrubs

Rake leaves

Mow lawns

Weed gardens

Polish silver

Wash windows

Clean golf clubs

Polish shoes

Wash blinds

Make desserts

Deliver laundry and dry cleaning

Iron

Sew on buttons, hem garments

Type

Computer work

Inventory

Video tape special events

Plan family reunions

Recycle

Carry garbage to curb for pick-up

Paint

Clean decks

Clean walks, porches, driveways, etc.

(Transparency 3-5 Have participants express their own ideas and add to the list.)

Extended Meeting

Characteristics of Entrepreneurs

The Ability to Take Risks

While entrepreneurs are often known as risk takers, most are careful to take only calculated risks. Entrepreneurs attempt to reduce risk by doing their homework and retaining as much control of the outcomes as they can.

The Desire to Compete

Entrepreneurs have a competitive spirit. They enjoy the challenge of starting a new enterprise and competing in the marketplace. This competitive spirit helps entrepreneurs overcome the obstacles inherent in starting a new venture.



The Ability to Handle Stress

The weight of decision making, the people that they are responsible for, the long hours and the endless negotiations with customers and suppliers all can take their toll. Entrepreneurs who have developed ways to deal with the stress over the course of their career seem to be much more effective than those who give in to the pressure.

The Ability to Make Work Fun

Entrepreneurs seem to get a great deal of enjoyment out of their work. They are excited about going to work. Such an ability to make work enjoyable may serve the entrepreneur well during difficult and stressful times. This is especially important during the early phases of the career.

The Ability to Creatively Solve Problems

A number of entrepreneurs mentioned that the reason for their success was their ability to solve problems in creative ways. In some cases, it was not just the ability to solve problems, but the ability to identify a given problem and then solve it. In many ways, entrepreneurs seem to display most of their creativity and innovation as they engage in problem solving.

The Ability to Recognize Opportunities

Entrepreneurs can tell us what is valuable or important, can create something we value or can help us get the things we want. All of this assumes that the entrepreneur is able to understand what others need—even if those others do not yet know that they need it—and then is able to fulfill that need. Entrepreneurs seem to be able to anticipate trends and recognize opportunities that others are unable to see.

Commitment to the Business

The successful entrepreneur is seen as someone who “lives, eats and sleeps the business.” The commitment and determination of the entrepreneur can be the key ingredient in determining success or failure.

Goal Orientation

One of the most important features that entrepreneurs value is their emphasis on the importance of having and achieving goals. Entrepreneurs tend to focus more on the ends that they are seeking than on the details of the means to those ends. Goals help entrepreneurs focus their energy and attention and give them something to shoot for.

Realistic Optimism

Those who start a business can become paralyzed by a fear of failure, given that the vast majority of new businesses do fail. Thus, a sense of optimism and a sense of humor are often necessary. The optimist should, though, be tempered by realistic expectation.

While these factors are believed to be essential to career success by entrepreneurs, there also are external factors, such as luck and timing, that play a role as well.



The New Entrepreneurs--"They are Us"

Aside from the occasional superstar like Ross Perot, most self-inspired entrepreneurs are not much different from you and me. All the statistics show they're a pretty average lot. Most never planned to be entrepreneurs. It happens because of circumstance. Often a crisis, like being dirt poor, or full of frustration, or getting fired (the number one reason) causes people go into business for themselves. They are ordinary people who simply find themselves in extraordinary situations. There are many myths about entrepreneurship. Here are some of the more damaging myths about the people who create and build businesses.

Myth Number 1

Entrepreneurs are born, not made. It's in their genes. They all invented something in a garage when they were 12, wear strange clothes to work and are generally unintelligible at parties. This is the “nerd” theory of entrepreneurship.

Realty Number 1

The average entrepreneur is 35 to 45 years old, has 10 years-plus experience in a large company, has an average education and IQ, and, contrary to popular myth, has a surprisingly normal psychological profile. As a group, they look and talk like you and me—a fairly average bunch.

Myth Number 2

The entrepreneur's overriding goal is to be a millionaire. He or she does it for the money, pure and simple.

Reality Number 2

Research denies this myth. Relatively few entrepreneurs ever earn the kind of bucks paid to CEOs these days. The entrepreneur's real obsession is to pursue his or her customer/product vision. Money is the necessary fuel to do this. Investors or lenders can spot the "get-rich-quick" types and avoid them like the plague.

Myth Number 3

Entrepreneurs are shady characters, ready to take legal shortcuts and are generally on the prowl for suckers to take advantage of.

Reality Number 3

Compared to unethical business leaders featured in the news, entrepreneurs don't seem so greedy after all. In such a sorry state of affairs, the Hondas and Bransons and Waltons of the world look more and more like saintly protectors of old-fashioned virtue. The unhappy fact is that low ethics and illegal tactics seem pretty well distributed throughout the population.

Myth Number 4

They're high risk takers—real dart throwers.

Reality Number 4

Entrepreneurs may be innovative, but that doesn't make them foolish. It's their money they're risking. The reality is that big company executives regularly take greater risks with shareholders' money than entrepreneurs are willing to take with their own. As to the "risk" of leaving a secure job and starting out on their own, all risk is relative. Most entrepreneurs believe that the greater risk is to leave your future reward and satisfaction in the



hands of a series of corporate bosses, all of whom have their own agendas to push. Betting on the corporate lottery for the next 30 years is a risk most entrepreneurs aren't willing to take.

Myth Number 5

Here's the latest one to hit the street: Too many entrepreneurs spoil the national brew. Everyone can't go off and just "do his own thing." Who's going to mine the coal, produce the steel and make the cars? Every country needs its foot soldiers too.

Reality Number 5

No one's suggesting that everyone just do his or her thing or that the whole world should work in a garage. What is suggested is that everyone needs to become competitive, including the folks in giant corporations. For mavericks and foot soldiers alike, a strong dose of old-fashioned enterprise isn't a bad place to start.

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Farrell, Larry C., **Searching for the Spirit of Enterprise**, Published by the Penguin Group, Penguin Books USA Inc., New York, NY, 1993.

Kent, Calvin A., **The Environment for Entrepreneurship**, Lexington Books, Lexington, Massachusetts, 1984.



Business Possibilities

- 1. telephone yellow pages**
- 2. neighborhood business community/
shopping centers**
- 3. SBA**
- 4. public library**
- 5. entrepreneurial magazines**
- 6. people you know**
- 7. yourself**
- 8. jobs people have trouble doing**



Rate Each Business Idea

- 1. Compare the business to your personal goals**
- 2. Talk to people in the same business**
- 3. Ask professionals**
- 4. Share thoughts with family and friends**
- 5. Make final decision yourself**

1. Low Technology

- Service chains: medical, dental, optometry, physical therapy, funeral
- Translation services
- Courier services
- Computer and software retailing

2. Medium Technology

- Third party maintenance of computers, office equipment and instrumentation
- Computer software: standard packages
- Computer software: customized packages
- TV retailing

2. High Technology

- Personal computer applications: all kinds
- Value-added datacom networks: retailing satellite and fiber-optic channels
- Specialized computer peripherals: voice recognition, debit cards

Business Ideas for Kids

Baby-sit

Plan birthday parties

Wash cars

Run Errands

Elderly Helper

Rent-a-kid

Homework helper

Pickup mail and newspapers

Water flowers/shrubs

Rake leaves

Mow lawns

Weed gardens

Polish silver

Wash windows

Wash golf clubs

Polish shoes

Make desserts

Deliver dry cleaning

Iron

Sew on Buttons

Hem Garments

Computer work, Type

Inventory

Video tape special events

Plan family reunions

Recycle

Carry garbage to curb

Paint

Clean Decks

Clean walks, porches

Wash blinds

[illegible]

Youth Entrepreneurship: Investigating Local Businesses

Lesson 4

Target Audience:

High school youth

Objectives:

Students will learn:

- More about the businesses in the local community.
- Factors which contributed to the success of the businesses.
- To develop business skills such as working toward goals, looking at business options, identifying reasons persons choose certain businesses, and learning the ground rules of business practice.

Materials Needed:

- Flip chart or chalk board and felt tips/chalk
- Pencil and paper for extended activity
- Handouts: guides for the interview and interview questions.

Before You Start:

Prepare student handouts

List possible business owners for interviews

Prepare transparencies

(Transparency 4-1)

Introduction

Ask the students for the names of businesses they have visited in the last week. List the names on the chalk board. Discuss why they went to the business, why they think it is or is not successful, etc.

(Transparency 4-2)

Ask students to name jobs they think would:

- Be very hard
- Pay very well
- Be very easy
- Take a lot of education
- Allow a person to travel a lot
- Make people admire a person
- Take a lot of nerve
- Be exciting
- Provide personal satisfaction



Now you will imagine your life as you would like it to be five years from now. **PAUSE**

It is morning and you have just awakened. As you sit up in bed, you look around the room. How large is your bedroom? **PAUSE**

What does the furniture look like? **PAUSE**

Now you get up and go to your closet. You open the closet door and look over your clothes to decide what you will wear today. What types of clothes are in your closet? **PAUSE**

What clothing do you choose to wear today? **PAUSE**

Are you pleased with your choice? **PAUSE**

You now go to the kitchen. As you enter the kitchen, what do you see? **PAUSE**

How do you feel about your kitchen? **PAUSE**

You are now ready to leave for work. Do you leave the house or work from your home? **PAUSE**

If you leave home, what form of transportation do you use and how far do you have to go? **PAUSE**

You are now entering your workplace. What do you see? **PAUSE**

Who, if anyone, do you see? **PAUSE**

As you do your work, what are your feelings? **PAUSE**

What are the things you like most about the job? **PAUSE**

It is now lunchtime. Where do you have lunch? Do you have lunch at your work station or do you go out? **PAUSE**

If you go out, where do you go? **PAUSE**

Do you have lunch alone or with someone? **PAUSE**

How long do you take for lunch? **PAUSE**

You are now back at work. Are you absorbed in your work or watching the clock, hoping the day will end soon? What kinds of activities are you performing? **PAUSE**

You have completed your work and are now on your way to your next destination. Where are you going? **PAUSE**

What time is it? **PAUSE**



What are your feelings as you arrive at your destination? **PAUSE**

Now take a couple of minutes to review in your mind the most outstanding feelings, thoughts and desires that you had during this activity. **PAUSE TWO MINUTES**

You will now come back to the present. Open your eyes slowly and stretch if you like. **PAUSE**

Let's talk about your life five years from now as you have just visualized it.

Discussion questions:

1. Were you working indoors or outdoors?
2. Where were you?
3. What were you wearing?
4. Did your work with people, ideas or things?
5. What made the day satisfying to you?
6. Did you work for someone or were you in charge?

Ask if anyone would like to share anything else about his or her visualization experience.

You have just experienced a long-term career planning activity that dramatically illustrates the impact of life-style preferences on your career plans. Hopefully, you have gained clearer perspective of your career plans and preferences, which will add direction and meaning to your life.

(Visualization Activity adapted from Ashmore, M.C. and others, Risk & Rewards of Entrepreneurship, Teacher's Resource Guide.)

Activity:

Role-play the telephone call and/or an interview. Have other class members observe and tell what was good and where the players might improve.

References:

Ashmore, M.C., Fischer, L.M., Rippey, G., Southwick, T.W., Zlotnick, L.A. and Douthitt, F., Risks & Rewards of Entrepreneurship, Teacher's Resource Guide, EMC Publishing, St. Paul, MN, 1988.

Learn and Earn for Fun and Profit, Leader's Guide, University of Maryland Cooperative Extension Service, 1989.



What
businesses
did you visit
this week?



Can you name jobs that:

- are very hard
- pay well
- are very easy
- need a lot of education
- allow a person to travel a lot
- bring a lot of admiration from others
- take a lot of nerve
- are exciting
- provide personal satisfaction

What
jobs did your
grandparents
do?



Interview Guidelines

- **Call the business owner to make an appointment.**
- **Plan for the interview to take about 15 minutes.**
- **Dress appropriately.**
- **If possible, visit the business before the interview.**
- **Get permission to use a tape recorder.**
- **Write down answers accurately.**
- **Shake hands and say thank you.**
- **Write your summary of the interview immediately.**



GUIDELINES FOR THE INTERVIEW

1. Call the business owner to make an appointment. Do not drop in unannounced. Briefly tell the business owner who you are, how you got his/her name, why the interview is important and how much time you need.
2. Plan for the interview to take about 15 minutes.
3. Dress appropriately for a business appointment.
4. If possible, visit the business before the interview so you are familiar with the layout, personnel and product.
5. If you want to use a tape recorder, ask permission to do so in advance.
6. When writing, try to record answers to the questions as accurately as possible.
7. Shake hands and say “thank you” when the interview is over.
8. Immediately after the interview, write down any impressions you developed so you will not forget them.



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Student Handout 4-1





INTERVIEW QUESTIONS

1. How long have you been in business for yourself? _____

2. When did you decide to go into business for yourself? _____
3. Why? _____
4. Did you hold any jobs, get education or training that made you feel prepared to start your own business? _____

If yes, can you tell about it? _____

5. How did you get the money to start the business? _____

6. How is the management of your business set up? _____

7. What advice would you give to people who want to go into business for themselves? _____

8. What do you enjoy the most about your business? _____

9. What do you enjoy least about your business? _____

10. How would your life be different if you were working for someone else? _____

11. If you were starting a business today, what do you feel is needed in your county? _____

12. What problems do you feel a person would face if he or she were to start that business? _____



YOUR BUSINESS PLAN: THE STARTING PLACE

Lesson 5

Target Audience:

High school youth

Objectives:

Students will learn:

- The role of a business plan.
- The components of a business plan.
- Skills for developing a business plan.

Materials Needed:

- Overhead transparencies
- Student handouts

Before you start:

- Prepare transparencies
- Prepare student handouts

What to do:

Introduction

(transparency 5-1)

A business plan improves communication, efficiency and decision making. It also helps to reach long-term goals and objectives. It does not provide all the answers. It should be flexible enough to allow you to take advantage of opportunities and avoid most pitfalls.

A written business plan helps you to effectively communicate goals and objectives to others. A written plan includes the direction the business will take and strategies needed to move the business in the planned direction. It also includes the roles of all persons involved in the business.

The business plan has two main purposes. The plan should explain the entrepreneur's own vision, expectations and results. The plan should also explain the business idea to outsiders (employees, lenders or both) and how the entrepreneur expects it to work.

The major parts of the business plan are the summary, company description, market analysis, management resumes, financial statements, a personal financial statement (if part of a loan proposal) and supporting documents.

The **summary** begins by identifying the entrepreneur and company name with an address and phone number. It is useful in routing the request to the appropriate loan officer.

Next comes the introduction, which includes a brief description of what the company wants. This can usually be done in one paragraph.

Example: Paul's Pet Sitting Service seeks a start-up loan of \$100 to produce brochures and establish a recordkeeping system for the business.



A business description describes the nature of the business, the market served whether the business is a start-up or an expansion of a current operation.

The market analysis is a description of the size, extent or cyclical nature or the market.

The management description will be one or two sentences about the management team. This should concentrate on any experiences that prepares the entrepreneur for running this business.

Following the summary is a detailed business plan.

The **business description** describes the company organization, operations, primary market, background and goals.

The **market analysis** identifies for the entrepreneur, as well as lenders, and the environment in which the business will operate. The analysis will identify the competitors, pricing strategies, business cycles and practices unique to the business, and key features of the product or service.

Information about **key personnel** includes a brief resume with personal financial information about the owner of the business. It also includes labor costs, contributions by owner/investors to date, contracts and the names or professionals consulted or to be consulted about your business.

The **financing details** require determining the amount required to start and operate the business until cash flow will support the operation. These calculations need to be realistic and conservative.

Financial documents to be included in the business plan include projected statements for profit and loss, cash flow and operating and a projected balance sheet and a break-even analysis.

Detailed **resumes** of the principals in the business will include name, address, telephone number, appropriate experiences, past employment history and education.

Finally, you will need to include the only negative section of the plan, **risks**. Identifying risks lets the lenders/investors know you recognize and are prepared to deal with the risks. It also alerts you to areas which require closer attention. Some of the risks that could be addressed are the lack of a company history, limited financial resources, limited management experience and uncertainties about the market and production.

Activity

Have students write a brief description of a business idea they have. Include the nature of the business operations and the market served.

Based on this description, have students write one or two sentences describing their experiences that would help them in managing the business.

Summary

The business plan is a standard against which you can measure the success of your business. You can check plans against results. You can identify problems before they become unmanageable.



Extended Session

Introduction

One of the first questions an entrepreneur needs to decide is the legal form the business should take. Some of the options available are sole proprietorship, general partnership, limited partnership and corporation.

(Transparency 5-2)

A **sole proprietorship** is a business which has one owner. There is no stock issued because one person owns all the assets and is responsible for all debts. All legal and contractual transactions are conducted by the owner, not the company.

The advantages of the sole proprietorship are the ease of formation, low overhead, and the control and direction set by the owner.

(Transparency 5-3)

A **general partnership** has two or more owners who bear responsibility for the operations and liabilities of the business. General partnerships are usually formed when one person cannot operate a business on his or her own. Each partner will bring strengths to the business and will provide capital, industry knowledge, labor or physical assets.

A disadvantage to the general partnership is that each partner is responsible for the acts of the other partner(s) when they act in the name of the business.

The advantages of the general partnership are the ease of formation, low overhead and the shared work load.

(Transparency 5-4)

A **limited partnership** consists of one or more general partners with full liabilities and one or more limited partners whose liabilities are limited to a set amount. Such partnerships are governed by the Uniform Limited Partnership Act. Limited partnerships must be registered with the Tennessee Department of Commerce and Insurance, Securities Division, as well as the Tennessee Secretary of State's Division of Corporations.

An advantage of the limited partnership is the increased ability to raise capital for the business.

(Transparency 5-5)

A **corporation** is a more expensive, labor-intensive form of business structure. It has the advantage of distancing owners from the liabilities of the business. With a corporation, the owner can also issue stock to finance growth.

Corporations must be registered with the Tennessee Secretary of State, Corporations Division. Corporations must have boards of directors and the corporate board minutes must be retained.

Corporations are legal entities and can be bought and sold for outstanding stock. Corporations usually pay income taxes apart from the individual taxes paid by the stockholders and corporate officers.



(Transparency 5-6)

An **S corporation** is a domestic corporation that can avoid double taxation by election to operate under the rules of Subchapter S of the Internal Revenue Code. The S corporation passes its income, loss, deductions and credits through to its shareholders to be included on their separate returns.

To become an S corporation, the company must be a domestic corporation with one class of stock. It can have no more than 35 shareholders who must be citizens or legal residents of the U.S. Shareholders must consent to S corporation status. The S corporation uses an IRS-allowed tax year and files IRS Form 2553.

Summary

Some of the legal forms for business organization are sole proprietorship, general partnership, limited partnership and corporation, including the S corporation.

Activity

Divide the students into small groups. Have them use their business idea to begin to develop a business plan. After this lesson, they should be able to complete the business summary and business description.

Reference:

Tennessee, Small Business Information, Small Business Office, Tennessee Department of Economic and Community Development, 1994.



The Business Plan

- **Summary**
- **Business Description**
- **Market Analysis**
- **Key Personnel**
- **Finance**
- **Resumes**
- **Risks**

Sole Proprietorship:

One owner

General Partnership:

Two or more owners

Limited Partnership:

**General partners with
full liability and limited
partners with a set
amount of liability**

Corporation:

Owners have protection from liabilities of business

S Corporation: Passes income, loss, deductions and credit to shareholders

Careful planning is key in any successful business. Without extensive planning, resources available to the small business (time, money, opportunities) could slip away with no benefit to the organization. For this reason, planning is a normal part of doing business. Extensive planning can improve communication, efficiency and decision-making abilities.

Planning does not replace entrepreneurial skill. A business plan cannot guarantee success. A business plan can be a way to show the potential of the business. This helps you, as the entrepreneur, identify problems you might encounter in your day-to-day operations and how to reach long-term goals. You can also take advantage of new opportunities as they come along. Remember that no amount of planning can identify all the pitfalls and opportunities that await your firm. However, an extensive business plan will be flexible enough to take advantage of opportunities and avoid most of the pitfalls.

A **written** business plan also allows you, the manager of the business, to effectively communicate these goals and objectives to others. This information includes the direction the business will take in the future, what strategies need to be accomplished to achieve that direction and the specific roles of investors, family members and employees in making the business profitable.

The business plan can place a wealth of information at your fingertips. If properly thought out and written, the business plan will contain several parts, which will describe your entire operation. These parts include the marketing, management, operations and financial plans for the firm. The parts of the plan will help you watch the progress of the firm and allow you to handle change and competition.

In short, the business plan summarizes the past, current and future activities of your business. Its most important purpose is to act as a roadmap for the survival and expansion of the business. The business plan also makes sure your business works “on paper” and enables you to determine its financial needs. Many potential small business owners never put the numbers on paper to see if revenues will cover expenses. As most entrepreneurs’ estimates of how well their business will do are overly optimistic, it becomes even more important for you to earn “pencil profits.” If the business is not profitable with your optimistic outlook, then you will probably not earn actual profits when the business begins.

Finally, the business plan acts as a standard for measuring the success of your business and your success as a manager. Comparisons of actual performance with predicted performance will allow you to see problems before they become unmanageable. But remember that this should be **your** plan. While you may get outside help, do not let someone else develop the plan for you. It will be meaningful only if it is the organization that you want.



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Handout 5-1



BUSINESS ORGANIZATION

An early decision you must make is to decide how the business will be organized. There are several different forms of business organization available. The simplest form of business organization is the **sole proprietorship**. One person owns the entire business, is responsible for raising capital and must take all responsibility and risks associated with running the business. Many businesses begin with this type of organization and either add a partner or incorporate later.

A **partnership** is formed when two or more people decide to share the risk and/or responsibilities of operating the business. In a **general partnership**, each partner is responsible for the debts and liabilities of the firm. The general partners' liability is that of the sole proprietorship. Thus, the liability could easily exceed the partners' investment to the business and could actually lead to personal bankruptcy.

A **limited partnership** is made up of one or more general partners and one or more limited partners. In this case, the general partners are still responsible for the full liabilities of the firm. The limited partners are only responsible for their level of investment in the business.

The third type of business organization is the **corporation**. The corporation is a separate legal entity where each member of the corporation is responsible for the liabilities of the business only to the extent of their investment in the business. There are several different forms of corporate organization; perhaps the most common in a small business setting is the **S corporation** (also known as the **subchapter S corporation**). This type of organization is designed mainly for small, closely-held corporations and has a tax advantage for the stockholder.



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Make It Legal

Lesson 6

Target Audience:

High school youth

Materials Needed:

- Transparencies or posters
- Handouts

Objectives:

Students will learn the legal aspects of owning a business.

Before you start:

- Prepare handouts for student activity

What to Do:

(Transparency 6-1)

Local regulations may include zoning laws, building codes, health requirements and fire and police regulations. Visit your county and/or city offices to find out which laws apply to the business you plan to start.

(Transparency 6-2)

Unless your business is exempt, obtain a county **business license**, referred to as a business tax. The license can be obtained from the county court clerk. If you are operating your business in an incorporated city, then you will also need a business license from the city clerk.

Usually, all businesses are subject to the tax. Exempt businesses include manufacturers, businesses with less than \$3000 in sales, those liable for Gross Receipts Taxes and professionals such as doctors and lawyers.

Tax rates usually start with a minimum tax of \$15 and a recording fee. In addition, tax rates include a variable amount based on sales, ranging from 1/8 of 1 percent for candy stores to 1/60 of 1 percent for food wholesalers.

The tax is due each year. The first tax is due within 20 days of opening a business.

The **Sales and Use Tax** is a tax paid by the buyer on the retail sale of goods and many services. Any business which sells, leases or rents tangible personal property or services not specifically exempt must pay the tax.

The current retail sales tax is a 6 percent state rate plus a 1 to 2.75 percent local tax rate. Check with the Tennessee Department of Revenue about the forms needed and the due dates for paying the tax.

Every business must file an annual **federal income tax return**. The form you file depends on the way your business is organized.

Self-employment tax (FICA) is the Social Security and Medicare tax for individuals who work for themselves. Check with the local Internal Revenue Service office for the details about the self-employment tax.



Employer Identification Number (EIN) is a number provided by the IRS to businesses with employees. Contact the IRS for information about the EIN and the forms needed.

Federal excise taxes are necessary for the sale or use of certain items, certain occupations and certain facilities and services. To see if your business needs to pay federal excise taxes, contact the IRS.

Develop a legal calendar. List the due dates for license renewals, tax payments and other legal activities. Make plans to maintain the required records and set aside the money needed to for taxes and fees. These practices will help you to have the money when you need it and to always make your payments on time.

Activity:

Have students complete some of the tax and business forms needed for meeting federal, state and local regulations.

Extended Activity

Invite members of the local Chamber of Commerce, Better Business Bureau, business and professional groups or government officials to discuss the importance of meeting the legal requirements.

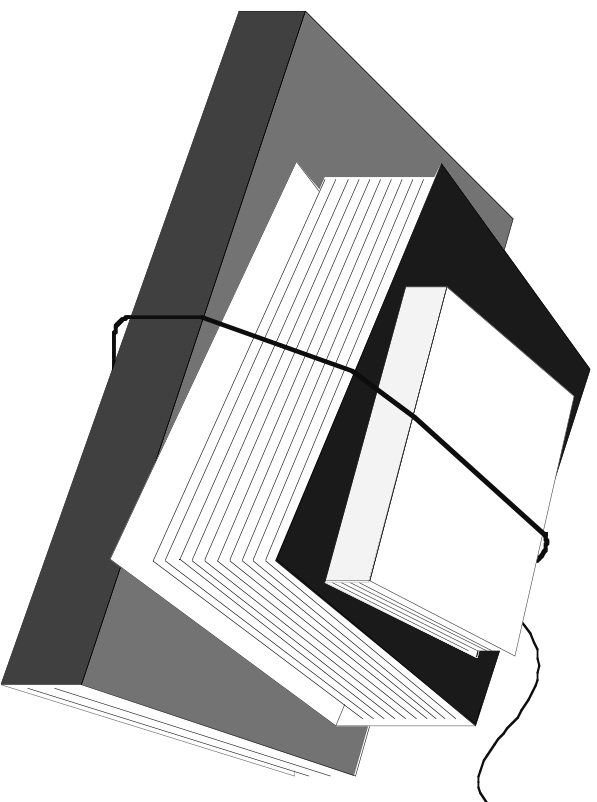
Reference:

Tennessee Small Business Information, Small Business Office, Tennessee Department of Economic and Community Development, 1994.



check

local regulations



Licenses and Taxes

- **Business License**
- **Sales and Use Tax**
- **Unemployment Compensation Tax**
- **Social Security (FICA) Tax**
- **Employer Identification Number**
- **Federal Excise Tax**

LICENSES AND TAXES

As a business owner, you may be responsible for several types of licenses and taxes. The following table contains license and tax categories. It also lists the appropriate government agencies that can provide information about the licenses and taxes.

CATEGORY	GOVERNMENT AGENCY
Business License	County Court Clerk
Local Business Taxes	County Clerk
State Sales Tax	Tennessee Dept. of Revenue
State Business Taxes	Tennessee Dept. of Revenue
Unemployment Compensation Taxes	Tennessee Dept. of Employment Security
Federal Income Taxes	Internal Revenue Service
Social Security (FICA) Taxes	Internal Revenue Service
Employer Identification Number	Internal Revenue Service
Federal Excise Taxes	Internal Revenue Service
Incorporation Fees	Tennessee Secretary of State

The addresses for the state and federal agencies listed above are:

Tennessee Department of Revenue
Andrew Jackson Building
Nashville, TN 37242
1-800-342-1003

Tennessee Secretary of State
Corporations Section
18th Floor, James K. Polk Building
Nashville, TN 37219
(615) 741-0537

Tennessee Dept. of Employment Security*
Unemployment Insurance Division
500 Cordell Hull Building
Nashville, TN 37219
(615) 741-1948

Internal Revenue Service Office**
Room 201
U.S. Courthouse
801 Broadway
Nashville, TN 37203
(800) 424-1040

* The Tennessee Department of Employment Security has regional offices in Chattanooga, Columbia, Cookeville and Jackson.

** The IRS has field offices in Chattanooga, Jackson, Knoxville, Memphis and Johnson City.

Handout 6-1



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OPERATING YOUR BUSINESS

Lesson 7

Target Audience:

High school youth

Materials needed:

- Transparencies
- Student handouts

Objectives:

Students will learn factors important for the successful operation of a business.

Before you begin:

- Prepare student handouts

What to Do:

Introduction

(Transparency 7-1)

In earlier lessons we have talked about the legal side of starting your business. You have learned about the fees and license needed to open your business. You have also learned about various types of partnerships and corporations. We now need to look at the day-to-day operation of the business.

You will find that the day-to-day operation will run smoother if an operating plan is in place. The operating plan should describe facilities, location, space requirements, equipment and the labor force needed to provide your product or service.

(Transparency 7-2)

Location of the business includes not only the site for the business, but wage rates for the area, available workers, convenience for the potential customers, access to suppliers and legal issues such as state and local taxes, building codes, utilities and zoning codes.

(Transparency 7-3)

Facilities that you will need for your business need to be determined. Are there existing facilities that meet your needs or will you need to build or remodel space?

(Transparency 7-4)

Is there a **labor force** available with the skills you need to produce your product or provide your service? If the labor force does not have the skills, can you train them? What will it cost?

Not all of these factors will need to be considered in every business. Identify those which apply to your business.



Activity:

Have students identify the factors that will affect their business idea and incorporate them into the business plan.

Supplies:

An important part of your business is to purchase the supplies needed to provide your product or service. Although price is an important consideration, there are other factors to consider when selecting a **supplier**. Among factors to consider are reliability of the supplier and the quality of the supplies.

Thinking through the supplies you need and grouping the supplies by categories will help you to determine the kinds of suppliers you need.

Once you have identified reliable suppliers, who provide supplies of a consistent quality, shop around for the best price. Remember, not all supplies you will need for the business must be purchased from the same supplier.

Activity:

Have the students list the supplies they will need for their business and group them by the type of supplier. (Student handout, **Labor Force and Suppliers** will help students in identifying supplies they may have forgotten.)

It may be necessary to have students sort supplies by **Must Haves** and **Nice to Haves**.

(Transparency 7-5)

Quality control may not always be a problem in your business, but the small business owner always has to be aware of any potential problems that may arise. The problems may range from minor inconveniences too actually causing the business to fail.

Quality control begins when you purchase your supplies and continues through the selling of your product or service.

Before selecting a supplier, you can ask for references of other customers. Be sure to ask for names of current and former customers. You can also ask local businesses which suppliers they use. If the supplier is located nearby, you may want to visit the facility to observe the way they handle orders from others.

To control quality when producing the product, ask your customers how you are doing. Use the suggestions they give to you. Asking their opinion and then not using it is a sure way to lose customers.

(Transparency 7-6)

Regardless of business size, you will need to develop a schedule. **Scheduling** means planning or timing resources to meet the business's needs. These resources could be labor, material or management ability. As the business owner, you must be able to determine when and in what quantity these resources will be needed.



Scheduling begins with you. You must learn to use your time wisely to fulfill your many duties as business owner. Some of the tasks you will need to schedule are paying bills, ordering supplies and time to produce or provide the product or service if you are the only employee.

Scheduling also includes making a plan for when you will order needed supplies. Keeping too large an inventory on hand will tie up capital and profits. Not having the supplies when you need them will result in unnecessary delays that will cost you in both dollars and customers lost.

Using your employees effectively will also require scheduling. This will include selecting the right person for the right job and having him or her on the job at the right times. It may also mean that you, as a small business owner, will have to change your plans at the last minute because an employee calls in sick.

Summary

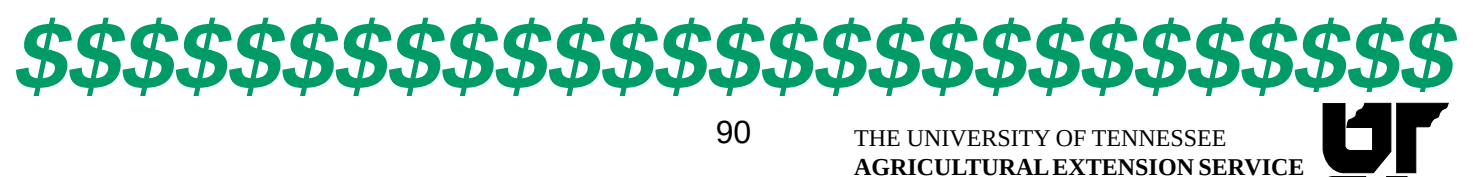
The operations plan describes how the business is organized. It also tells who is going to make the day-to-day decisions and the long term critical decisions for the expansion and survival of the firm. The operations plan also describes the process by which a product is manufactured or a service is provided. Finally, the operations plan spells out many of the company methods for dealing with the labor force, product returns, refunds, etc.

Activity:

Have students incorporate the principles from the discussion into their business plan.

Extended Session

Invite local entrepreneurs to form a panel to discuss the operation of their businesses.



Business Operation



Location!
Location!
Location!



Facilities

Labor Force and Suppliers

Quality Control



Scheduling

LABOR FORCE AND SUPPLIERS

Labor Force

The labor force that you choose can either help to make or break your business. First of all, you must decide what types of employees you can hire. Will you be able to operate your business with high school students working part-time after school? Or will you need a higher quality work force to accomplish the goals of your business?

Suppliers

An important part of owning your own business is purchasing the needed supplies. When many business owners think of buying supplies or raw materials, they tend to think only in terms of price. Price is important. You certainly do not want to let your costs increase dramatically because of the cost of supplies. However, there are other items to consider when purchasing supplies and raw inputs.

If you are purchasing raw materials to be used as inputs, a concern is the reliability of your supplier. These raw inputs could be cleaning supplies for a custodial service, wood for a furniture maker or CDs for someone who owns a music store. If your supplier is unreliable and cannot continually supply you with the needed inputs, your business will not be efficient. You will likely lose customers because you will frequently have no product to sell.

You must also be concerned with the quality of your supplies. A steady supply of cheap, inferior inputs is not what you want or need. Inferior inputs ultimately lead to inferior products. In times past, a business owner could have profitably sold inferior products. However, today's global marketplace will not allow this type of activity. Your customer base will simply go elsewhere to shop.

Finally, when you do find a consistent quality supply of inputs, you will want to pay as low a price as possible. Many firms offer discounts to businesses that purchase large quantities of goods or make prompt payment. However, as a small business, you may not be able to afford these large volumes even with a discount. You may be able to find other businesses needing the same product. When possible, work with them on a cooperative basis to purchase these inputs.

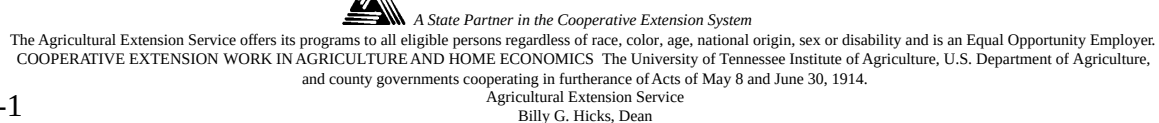
You might also be able to secure discounts from suppliers simply by becoming a long time customer and using them as your sole supply of a particular product or group of products. This strategy does carry some risks. You must be prepared for the occasion when your supplier does not have the product you need. Contact or research a backup supplier for when this occurs.

There are several ways that you can learn about potential suppliers. You will probably be able to make good use of the yellow pages to determine a potential base of local suppliers. In fact, local suppliers are often your most dependable source of high quality inputs. Other places to find potential suppliers are trade associations, trade periodicals, trade shows, and business and industry registers. Furthermore, business and industry registers will often rate your potential suppliers based on their financial strength and industry reputation.



Business stationery	Containers to package merchandise
Telephone message pads	File folders
Special message forms	Stapler
Sales slips	Paper clips
Order forms	Pens and pencils
Invoice forms	Rulers
Account ledger	Scratch paper
Collection forms	Pencil sharpener
Pricing tool	Three hole punch
Business cards	Transparent tape
Mailing labels	Correction fluid

There are several suppliers of these small items. Discount stores, office supply mail order houses and national business supply stores will most likely be your cheapest supplier of these goods. However, department stores, local office and stationery supply stores and a local printer often provide top-quality merchandise for a surprisingly low cost. These outlets may be the suppliers of items such as business cards, stationery and invoices for which appearance is a prime consideration.



You should also be concerned about quality control on the output side. If you are producing an inferior product or service, you will likely lose your customer base. The loss of customers could cause your business to fail. There are several ways to monitor your quality control as a producer. Constantly ask your customers how you are doing. Be sure and listen to your customers' responses and take action regarding their suggestions. Nothing will cause you to lose a customer faster than to ask his or her opinion regarding your operation and then disregard that opinion.



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Handout 7-2



Scheduling

Regardless of what type of business you own, scheduling is one of the most important tasks you will perform as a business owner. When most entrepreneurs think of scheduling, they usually think in terms of manufacturing or service type businesses only. However, the scheduling of scarce resources in any type of business is a key to profitability.

We first need to define scheduling. Scheduling means the planned timing of resources to meet business needs. These resources could be labor, materials or management ability. You, as the business owner, must be able to determine when and in what quantity these resources will be needed.

The first resource in scheduling is you. You will wear many hats in your operation. You are the manager, risk taker, employer, labor force and many other things to your business. The danger is that, when you perform all jobs, you will spread yourself too thin and do none justice. For example, if you get too busy doing manual labor, you may forget to pay the electricity bill. Also, you may involve yourself too heavily with the day-to-day mundane tasks of your business that can easily be delegated to someone else. Learn to use your time wisely.

The second set of resources that you have to schedule are the raw inputs of your business. For example, if you are in a furniture manufacturing business, you will need to purchase items such as cloth, nails, screws and wood. You must be able to schedule the use of these materials so you will not run out of inputs or maintain an excessive amount of inventory. Maintaining an inventory costs money and therefore reduces your profits. Running out of inputs causes production to come to a halt.

The same is true of a service-oriented business. For example, a custodial firm will need to purchase all manner of cleaning supplies and equipment. If the supply inventory is too large, inventory costs will be larger than they need to be. Likewise, if the inventory is too small, supplies will be run out and you will not be able to clean anyone's office or house.

The third set of resources that will require your attention is your employee pool. You must be able to schedule employees in such a way that your business can remain in operation. This may mean that employees with certain skill and responsibility levels shall be required to work at particular jobs and at particular times. While this may sound easy to do, remember you are dealing with human beings. Human beings tend to have problems. For example, you may be getting ready for a Friday night date and your night manager calls to say that he is sick and can't make it. You must be willing to either cover for that worker yourself or find another employee who can perform his job. You should also realize that this type of problem will sometimes seem like the norm rather than the exception to your business operation.



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Handout 7-3



Marketing Your Business

Lesson 8

Target Audience:

High school youth

Objectives:

Students will learn:

- The parts of a marketing plan
- How to do market analysis

Materials needed:

- Overhead transparencies
- Student handouts
- Maps of the area
- Census data

Before you start:

- Prepare student handouts
- Prepare transparencies

What to do:

Introduction:

Marketing includes all the decisions involved in the business effort. It starts with the product or service and includes production, pricing, promotion (including advertising), selling, service and customer satisfaction.

The marketing plan provides a means for the entrepreneur to develop a system to sell a product and produce revenues for the business. Because revenues are the lifeblood of the business, the marketing plan is the most important part of the business plan.

(Transparency 8-1)

Market research is the first step to a marketing plan. Market research is a way to get particular information from potential customers and available resources that will help you to reach the goals for your business. The objective of market research is to learn all you can about the potential for your business.

(Transparency 8-2)

Begin your market research by defining the geographic area for potential customers. The most convenient tool is to simply map the circulation of the local newspaper or shopping guide. This gives you, the entrepreneur, a measure of the geographic size and shape of the area from which customers may be attracted when using the local media advertising.

Activity

Have students plot on a map the area from which they feel their business idea would draw customers. (For more advanced groups (or individuals) discuss as a group or assign, as independent study projects, the use of another tool for determining the market size, **Reilly's Law of Retail Gravitation**.)

(Transparency 8-3)

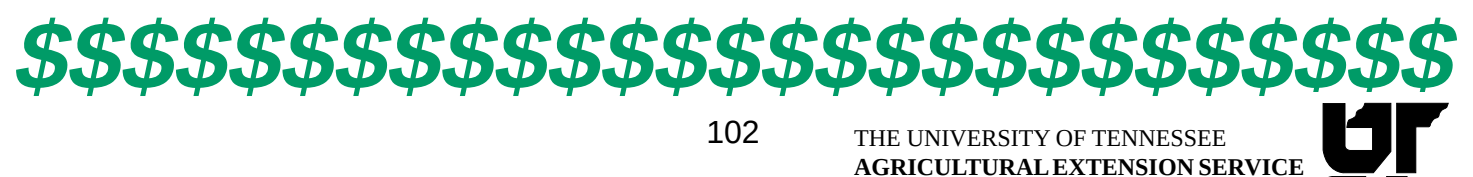
Once you know the geographic area, you will need to decide whether a market could exist for the product. This includes looking at potential sales. (There are a number of tools that can be used by the advanced students. These are discussed in some student handouts.)



Activity

Activity

Activity



CRITERIA FOR FIRST PRODUCTS OR SERVICES

It is important to remember that the product that is one firm's home-run may be another firm's disaster. Success and failure are determined by the nature of the organization and the people who will use the product or service. The requirements for a beginning company's first product are particularly strict due to the organization's extreme limitations in terms of staff, experience, market contact, capital and other factors needed to make a new product or service sell.

The following table offers one way of classifying your first product. Items in the table are examples of products which fit various market conditions and product stages.

	Existing Product	Modification Existing Product	Totally New Product
Existing Market	<i>"New" shaving cream</i>	<i>Disposable hospital bedding</i>	<i>Laser surgical instruments</i>
Identifiable Market	<i>Children's cosmetics</i>	<i>Laptop computers</i>	<i>Spanish language news-only TV station</i>
Unknown Market	<i>One-person submarine</i>	<i>Computerized burglar alarm</i>	<i>Motorized pogo stick</i>

Try placing your first product or service ideas into these pigeonholes. Then consider the following:

1. The closer you are to the northwest corner, the safer and easier-to-finance your product will be. This is often a winning combination for the first product, even though the potential payoff may be higher for future products.
2. The further toward the southwest corner you get, the harder it will be to find financing and develop a profitable enterprise.
3. In general, a new company is better off in the northeast corner, where the market is at least *known*, rather than in the southwest corner where it may never make the first sale. This is true because new companies usually have less marketing know-how.
4. Since higher rates of return nearly always involve higher risk, you ought to consider reserving riskier, higher-potential ideas for second or third products. By then you'll have a company going and, hopefully, some modest first-product success.



Summary

Remember, the marketing plan is the most important part of your business plan. It will provide you the means to develop a strategy for selling a product or service and producing revenues.

Extended Session:

Introduction

(Transparency 8-7)

Advertising is part of a sound marketing plan. A well-planned advertising program is ongoing which builds over time. It can help improve your business, but is not a cure for all business ills.

Those who use advertising effectively accomplish these purposes: to maintain old customers, bring in new customers, establish a position among competitors and to reinforce the business' image as a part of the community.

Getting the public to notice and remember your advertising will not be easy. Research says we are exposed to more than 4500 messages a day. A recent research of television advertising found that only 10 percent of the viewers could correctly identify the brand advertised in a particular commercial when they were asked about it later. Eight percent said the commercial was for a rival product. Another study revealed that 84 percent of people had no reaction at all to an advertisement in print or broadcast.

To get your advertising noticed, remember these key points.

Target your customer. The primary goal of advertising is to get the right message to the right customer at the right time. You will need to go back to your market analysis and review your customer profile.

Identify the image you want your advertising to project. Single out the benefit of your product or business you want to highlight then take action.

Select the media you want to use. Generally, the best advertising program is one that combines several available media.

Activity

Ask students to name various types of media they could use to promote their business idea. Examples include:

Traditional Media

- Billboard
- Bus poster
- Direct mail
- Magazines
- Newsletters
- Newspaper
- Other local publications
- Radio
- Shopper
- Television (commercial)
- Television (local cable)
- Yellow pages

Other Media

- Car cards
- Community theater program book
- Flyers
- Grocery bag stuffers
- Posters
- School paper
- Sports programs
- Store window displays
- Table tents
- Telephoning



Though not considered as advertising, the following may be goodwill builders: balloons, bookmarks, bumper stickers, calendars, hats and jackets, imprints on giveaways, stickers, team sponsorships, etc. These items would be budgeted separately from other forms of advertising.

Coupons and discount offers can increase business by introducing your operation to new customers, but use them carefully.

You may decide not to use coupons or discounts because: customers expecting price breaks all the time, so many redemptions you cannot meet the demand, extra paper work at the cash register and in the record keeping and bargain hunters coming only for specials.

If you decide to use coupons, always have a purpose in mind. Reasons might be to pick up business on days that are usually slow or to attract new customers. Never use coupons for a new business opening. Get the bugs worked out first.

Summary

Select your advertising tools carefully. Use only those which will reach your intended customer.

Activity

Have students plan an advertising campaign for their business idea.

References:

Huss, Jim, Ouverson, Carol and Banyas, Joy, “**Advertising, An Investment in Your Business’ Future,**” North Central Regional Extension Publication, #299.





Market Research

Define the geographic area

Look at potential sales

Design a questionnaire

	Existing Product	Modification Existing Product	Totally New Product
Existing Market	<i>"New" shaving cream</i>	<i>Disposable hospital bedding</i>	<i>Laser surgical instruments</i>
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	Existing Product	Modification Existing Product	Totally New Product
Existing Market			
Identifiable Market			
Unknown Market			

Advertising

- **Target your audience**
- **Identify your image**
- **Select your media**

Market Analysis Example

Patti Price, a Jamestown, Tennessee resident, is thinking of opening a restaurant within the city limits of her hometown. Before she invests a substantial amount of time and money in this venture, she decides that she needs to perform a fairly in-depth market analysis to determine whether or not the area can support this type of business.

First of all, Patti had to decide what type of restaurant she was going to establish. After looking at the type of restaurants doing business in the Jamestown area, she noted that there was no place suitable for fine dining. She decided that this was the idea she would start with.

Patti then undertook the task of defining her typical customer. She realized that her customers would come from two distinct sources: local citizens and tourists. From visiting other restaurants offering the same type of food and atmosphere, she found that the majority of her regular customers would be middle-aged professionals. Another significant source of revenue would come from special occasions, such as anniversaries and proms. Finally, she could expect a significant amount of seasonal business from the substantial tourist population who visited Fentress County each year.

Since the majority of her business would come from Fentress County professionals, Patti analyzed this group to determine whether or not there were enough residents fitting this population to support her business. At first glance, the data was disheartening. Patti found that 43.5 percent of the persons residing in Fentress County lived below the poverty rate (Table 2.17, TSA¹). She also discovered that the average weekly wage in Fentress County ranked 94th out of 95 Tennessee counties (Table 3.13, TSA).

Patti realized that while the average Fentress County citizen would not be a regular customer, he or she would visit her restaurant on special occasions such as holidays, anniversaries, homecomings and proms. Therefore, she felt comfortable using these citizens in an initial market analysis.

Patti's first step was to determine the geographic area from which she could expect to draw customers. She called the local newspaper office and asked what the major subscription area was. The circulation manager informed Patti that most subscribers lived inside the Fentress County boundaries, although a few papers were mailed to former residents who wanted to stay abreast of county happenings.

Patti knew that while this information was useful, there was a strong indication that her market area might be larger than Fentress County. She had heard about gravitational models from an Extension program and decided to use Reilly's Law. To use this type of model, she knew that she needed to get population and distance information for the cities and towns surrounding Jamestown. This information is presented in the following table:

City	Population	Distance from Jamestown	Drawing Distance
Jamestown	1,862		
Oneida	3,502	39.0	16.4
Wartburg	932	43.0	
Livingston	3,809	29.0	16.0
Cookeville	21,744	47.0	8.8
Cookeville	6,930	36.0	13.3
Huntsville	660	32.0	

¹ Tennessee Statistical Abstract



Patti knew from talking to the Extension agent that she could only use towns with populations larger than Jamestown's in her analysis. This ruled out using Wartburg and Huntsville. She then calculated the distance that she could expect people to drive to her restaurant from the direction of these towns. These distances are shown in the table above.

This information suggested the majority of the restaurant's clientele would come from the Fentress County area, with a small portion coming from Overton County (Livingston). However, Patti realized that some customers would probably come from Rugby, a historical village on the Fentress - Morgan county line. Rugby had a housing development that contained first and second homes for middle-to-upper income persons. Since Rugby was in the direction of Wartburg, it could not be factored into the Reilly's Law analysis. This was the first suggestion to Patti that care needed to be used with any type of market analysis tool.

Once Patti had her geographic market area established, she decided to use pull factor analysis to see if consumers living outside Fentress County were currently patronizing local restaurants. To do this she needed the following data:

Item	Amount
Fentress Co. Sales	\$2,215,000
Fentress Co. Disposable Personal Income	\$141,000,000
Tennessee Sales	\$2,595,902,000
Tennessee Disposable Personal Income	\$77,611,718,000

She then calculated the pull factor as:

$$PF_{Fentress} = \frac{2,215,000_{F,Sales}}{141,000,000_{F,Income}} \div \frac{2,595,902,000_{TN,Sales}}{77,611,718,000_{TN,Income}} = 0.47$$

Patti realized from this analysis that the restaurant industry in Fentress County was not capturing the potential trade from the local citizens, much less drawing outside customers into the county. She then decided to calculate the potential sales of food and eating establishments in the area to determine how much room for growth existed. To do this, she needed the following data:

Item	Amount
Fentress Co. Population	14,669
Tennessee Population	2,969,948
Fentress Co. Sales	\$2,215,000
Tennessee Sales	\$2,595,902,000
Fentress Co. per capita DPI	\$6,927
Tennessee per capita DPI	\$12,255



Patti then calculated the potential sales of the area as:

$$\text{Potential Sales} = 14,669 \times \frac{2,595,902,000}{2,969,948} \times \frac{6,927}{12,255} = 7,247,226$$

From this, Patti saw that Fentress County restaurants were only capturing 30 percent of the potential market (\$2,215,000 $\div$ \$7,247,226 = 0.30 or 30 percent). Given her analysis, she felt that there was a market for her type of restaurant.

To develop her marketing plan, Patti realized that she had to develop a profile of her customers. Given the type of menu that she planned to serve and the atmosphere of the restaurant, she believed that her typical customer would be a middle-to-upper income professional with a family. She knew this type of individual led a relatively hectic life and ate many of his or her meals in restaurants. She felt that the type of establishment she was proposing would provide these patrons with a quiet evening to entertain spouses, dates or business associates.

She also realized that she should garner a substantial portion of the tourist trade that passed through Jamestown each year on their way to or from the Big South Fork Recreation Area. While she welcomed the tourist trade, she realized that there were certain styles of dress and behaviors that would not be appropriate for her restaurant. For example, her regular clientele would not appreciate the shorts and tank tops commonly worn by canoeists and kayakers on the river. She decided that she would market her restaurant toward the older members of the tourist trade and emphasize the fine dining and quiet atmosphere of her establishment.

The third type of clientele that Patti felt she could expect were teenagers on prom and homecoming dates. However, she realized that while this type of patron would be expected to spend a fairly large amount of money on a prom date, teenagers tended to be quite noisy and could disturb her other patrons. She decided that a folding wall in her restaurant would serve to block the majority of noise from her regular clientele and tourists.

Patti decided that for her restaurant to be successful, she would need to have an atmosphere and menu that her customers would enjoy. To find out what they would like, she developed a short survey. She kept the questions short and open-ended. Her questions were:

1. What are your three favorite entrees?
2. What are your favorite vegetables?
3. What are your favorite desserts?
4. What are your favorite colors?
5. Please describe your perfect dining-out experience.

Since Patti did not know many of the professional workers in Jamestown, she decided to walk around the courthouse square during lunch and at 5:00 p.m. She would then try to interview every male wearing a suit or slacks and a tie and every female wearing a business suit. She introduced herself and told the potential interviewee that she was thinking of opening a fine dining restaurant in Jamestown. She then asked the interviewee if he or she had a few minutes to answer some questions about the type of restaurant he or she would like to see in Jamestown.



In the area of customer relations, Patti realized that her customers would want and expect superior products and service from her staff. She decided to adopt the policy of refunding the cost of the meal and giving that customer a free dinner if the customer was dissatisfied with either the food or service for any reason. She realized that some customers would try to take advantage of this policy. However, Patti felt that the vast majority of her customers would appreciate the intent of the policy.

References

Harris, Thomas R., G.W. Smith, and Michael B. Mooney. "An Alternative Approach to Trade Area Analysis." *Journal of the Community Development Society*, Vol. 21, No. 2, 1990.



Handout 8-1

\$

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	Existing Product	Modification Existing Product	Totally New Product
Existing Market			
Identifiable Market			
Unknown Market			

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4. Since higher rates of return nearly always involve higher risk, you ought to consider reserving riskier, higher-potential ideas for second or third products. By then you'll have a company going and, hopefully, some modest first-product success.



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Handout 8-2



Price It Right

Lesson 9

Target Audience:

High school youth

Objectives:

Students will learn:

- Factors to consider when establishing a price
- To compute a price using a simple formula

Materials You Will Need:

- Transparencies
- Student handouts

Before You Start:

- Make copies of student handouts

What To Do:

Introduction

One of the most important reason to start a business is to make money. Yet many businesses operate without ever showing a profit. How can you determine the perfect price that will be low enough so people will buy your product, yet still be high enough so that you can make a profit?

(Transparency 9-1)

Setting a price for your product or service is difficult. Pricing is a decision where you often question if you are setting the right price. The bottom line of your business is profit. Too often, new business owners are guilty of selling themselves short by setting prices too low. This occurs when the business owner doesn't value his or her time or is unrealistic about the costs of running a business.

There are guidelines that can help you set a price for profit. However, there is no one method that is perfect for all businesses under all conditions. To calculate a price for profit, you need to know the basics behind material costs, overhead costs, salary and profit margin. After estimating these costs, you can apply a pricing formula that will help you determine the best price for your product or service.

(Transparency 9-2)

MATERIAL COSTS

Any cost that ties in directly with the production of the product or service in your business is a material cost. These include all raw materials, inventory, supplies and labor used in the production of your product or service.

Material costs vary depending on the amount of the product you buy and your method of payment. Many suppliers will offer discounts if you have a tax number. A tax number can be obtained after you apply for and receive your business license. You will need to allow for extra waste materials which often have to be discarded as a part of production. Delivery costs also add to the cost of materials.

If you do not know the costs of materials, check with suppliers. They can help you identify a general price range. You may also talk with others working in a similar business. They can be extremely helpful in identifying costs for materials which you may have overlooked.



Labor is sometimes considered a material cost when labor is used to produce a product or provide a service. Labor costs, in the form of employee wages or contract labor, can greatly increase the material costs of your business.

Labor costs involve more than the hourly wage. When you are the boss, you have to pay various taxes and benefits on employees’ salaries which go beyond the hourly wage. These costs greatly increase the cost of hiring employees. Include the total costs of taxes and benefits in addition to the hourly wage when you calculate labor costs. For example, the hourly wage of \$5 for labor is actually closer to \$7.50 in real costs for the business owner who must hire employees.

Some businesses utilize contract labor. In this instance, the people you contract with are considered to be in business themselves. Therefore, you pay a set sum for the job and are not concerned with salaries, hourly wages and employment taxes.

(Transparency 9-3)

OVERHEAD COSTS

A business has many indirect costs or expenses that do not depend on the product of a product or service. Listed below are typical examples of indirect costs.

Interest and Loan Payments	Sample Items	Credit Cards
Advertising and Promotion	Product Markdowns	Office Supplies
Product Sales	Sales Time	Networking
Mileage	Returns	Insurance
Displays	Unsold Inventory	Rent

(Transparency 9-4)

SALARY

Because of the numerous costs involved in starting a business, it is often difficult for the business owner to pay him/herself a salary. An important reason for being in business is to make money. If you cannot afford to pay yourself a salary, then the business is not making money.

In many small business operations, the owner is also the person who produces the product or service. In this instance, part of your salary is tied into material costs as a labor charge. You are actually paying yourself to produce the product or service. However, this does not take into account your “nonproductive” time, such as selling your product, or record keeping that is involved in operating a business.

Can you afford to pay yourself a salary for your nonproductive time in the business? A harsh reality when getting a business off the ground is that the new business owner will receive little or nothing for his/her time in the beginning months or years of the business. A salary for the new business owner often becomes an optional cost until the business becomes established. Set a time limit for how much time you are willing to work without receiving pay. It is not a condition you wish to continue indefinitely.

How do you decide how much to pay yourself? The decision as to how much your time is worth is a very personal one. Most people decide upon their wage by looking at how much they could earn if they were working at another job. The amount you decide upon should be realistic in terms of the job market in your area and your job skills. Remember to include extra costs for various taxes and benefits, just as you would if you were hiring employees.



(Transparency 9-5)

PROFIT MARGIN

The profit margin is often overlooked by beginning businesses. Remember, an important reason to start a business is to make money. The profit margin is the money that is left after all expenses and salaries have been paid. Profit margins are important because they allow you to reinvest money into the business for growth and unexpected expenses.

Profit margins are usually added as a percentage markup. It is added after the total cost of the product or service has been determined.

(Transparency 9-6)

PRICING OF PRODUCTS

To effectively price an individual item for sale in your business, you need to know certain costs identified with your business. This “cost-plus” pricing formula is:

- Material costs per item (Include labor cost to produce item)*
- + *Average overhead cost (Estimate your yearly overhead costs. Divide this by the estimated productive working hours in a year and multiply by the time needed to complete one item)*
- + *Salary (Estimate desired yearly salary and divide by the number of items which can be produced in the estimated yearly productive hours).*
- + *Profit margin (percentage of total costs)*
- = **Product Price**

Example

The NNNN Business is producing an item which requires materials costing \$7.50 per item. Assume the average yearly overhead costs are \$600, with 520 yearly productive working hours (10 hours per week). It takes one hour to complete each item. The owner would like to earn an annual salary of \$2500 and make a profit of 10 percent. What price does the NNNN Business need to charge per item?

Material costs (production labor included)	\$7.50
+ Overhead costs (\$600 divided by 520 x 1 hour labor)	1.13
+ Salary (\$2500 divided by 520 items produced per year)	4.71
= Total cost per item	13.34
+ Profit Margin (10% of \$13.34—total costs)	1.33
= Total Price	\$14.67



PRICING OF SERVICES

To determine the price of a service your business is offering, you will again need to know certain costs of your business. The following formula is a guide to calculating the price you should charge per hour for a service.

Average overhead costs per hour (Estimate yearly costs and divide by estimated productive working hours in a year)

- + *Hourly wage*
- + *Salary (Estimate desired yearly salary and divide by estimated productive working hours in a year)*
- + *Profit margin (percentage added to total costs)*
- = *Price per hour for a service*

Example

John is operating a lawn service during his summer vacation. His average operating costs are \$200. He would like to earn \$5 per hour for providing the service and estimates he would work 200 hours over the summer. He would like to earn a salary of \$500 with a 10 percent profit margin. What does John need to charge for cutting a lawn which requires two hours to complete?

Overhead costs per hour (\$200 divided by 200 hours)	\$1.00
+ Hourly wage (\$5.00 + \$1.50 for taxes)	6.50
+ Salary (\$500 divided by 200 hours)	2.50
= Total cost per hour	\$10.00
+ Profit margin (10% of \$10.00)	1.00
= Price per hour of service	\$11.00

If a lawn requires two hours for John to cut and trim, he would need to charge \$22.00. This would allow John to pay himself the desired wage, earn a salary for his nonproductive hours in the business, in addition to establishing a profit margin for the business. In most instances, it is better to estimate your time and to quote a complete price for the service rather than telling the customer your hourly charge.

SUMMARY

Pricing is difficult. There is no perfect price. The best price for a given product or service can vary according to competition, location, prestige and other variables.

Compare different pricing methods to see what works best for your business. Keep a close record of your expenses and time. Pricing can be compared to walking a tight rope. Charging too much can put you out of business just as fast as not charging enough. Either way, you fall off the rope. Pricing is a skill which you must develop if you want a business that makes money. If you are unable to charge the amount required to make a profit, then you need to look at ways to cut costs or pursue another business.

Activity

Form student work groups and apply the pricing formula(s) to determine the price of their product or service.



One of the most important and most difficult tasks you will undertake as a small business owner is to determine the price you will charge for your product or service. You should strive to determine a price that will allow you to achieve the goals you have set for the business. These goals can include capturing as many customers as possible, creating an impression of product quality or earning the largest profit possible. Each of these goals requires a separate pricing strategy and it is unlikely that these strategies will yield a single price that allows the business to achieve all goals.

However, the mechanisms behind specific pricing strategies to meet business goals such as these are beyond the scope of this project. Instead, let us look at pricing strategies commonly used in small business settings. One word of caution: many small businesses adopt one of these pricing strategies and assume that the calculated price must be the “best” price since it came from some sort of a formula. Nothing could be farther from the truth. The strategies presented here are tools that can be used to determine an initial or “baseline” price. You must adjust any baseline price to fit the particular market conditions that you face. Furthermore, you must constantly examine your goals and market conditions to determine if anything has changed. If these conditions have changed, you must be willing to adjust your pricing structure to achieve the goals you have set for your business.

Pricing Strategies

Random pricing is an extremely poor method of setting prices in today's marketplace. Unfortunately, many businesses continue to use this practice. This technique involves setting an arbitrary price without regard to prevailing market demand conditions or costs of production. Therefore, it is unlikely that this type of pricing strategy will enable your business to meet any of its goals.

Cost Plus Pricing

The first category to be examined is labor costs. Many small business owners severely underestimate this category when calculating the total cost of producing a good or service. Labor costs are more easily examined when divided into two distinct branches: employee costs and managerial costs.



Many business owners hire an employee for a fixed wage and assume this wage is the total cost of that employee for one hour’s work. However, this is just the start of employee costs. Employers must pay their part of Social Security and Medicare taxes, state and federal unemployment taxes and workmen’s compensation insurance, in addition to the base wage.

Patti learned how much an employee would cost when she calculated the total cost of hiring a dishwasher. She wanted to pay this person \$5 per hour. After checking with the Tennessee Department of Revenue and her insurance agent, she found that the cost of this employee was as follows.

This showed Patti her labor costs would be approximately 30 percent higher than she had first thought.

Base Salary per hour	\$5.00
Social Security (6.2%)	0.31
Medicare (1.45%)	0.07
State Unemployment Insurance (5%)	0.25
Federal Unemployment Insurance (0.8%)	0.04
Workmen's Comp Insurance (17.5%)	0.88
Total Cost per hour	\$6.55

We now turn our attention to the second labor cost category: managerial costs. Many entrepreneurs say that owning their business is reward enough and they expect no compensation for their contribution to the business. Don’t be taken in by these fallacies. Using this train of thought severely undermines your contribution to your business. For example, you may be (and probably will be) part of the production team. You should pay yourself a wage equal to your employees for performing these tasks.

Assessing the value of your managerial abilities is far more difficult. And don’t believe that your management function is not important. As the owner, you must provide all financial capital, take all the risks and make sure that your firm runs “smoothly.” One rule of thumb for valuing your managerial contribution to the firm is to determine what you could earn if you were not running your business.

Patti knew that she would be part of the production team and would also provide all the managerial inputs. As a production worker, she determined her time was worth \$5 per hour, the level of base salary her employees would be earning. However, she had a much more difficult time assessing the value of her managerial ability. She finally decided to use the hourly wage of her last job before moving to Jamestown. Patti had earned \$5.75 per hour working as a cashier and hostess in one of Nashville’s finer restaurants. She felt this would accurately reflect her contribution of managerial abilities to the firm.

But how do you determine labor costs on a per unit of sales basis? In other words, our present cost estimation is fine if it takes exactly one hour to produce a unit of product. But this doesn't happen very often in the real world. To convert these hourly costs into per unit costs, use the following simple formula:

$$\text{Labor Cost per Unit} = \frac{\text{Number of Minutes to Produce One Unit}}{60 \text{ Minutes}} \times \text{Hourly Wage Rate}$$

Dividing the number of minutes required to produce one unit of the product by the number of minutes in an hour tells you how many hours it takes to produce a unit of the product. Multiplying this by the hourly wage rate yields the labor costs per unit of the product manufactured.

Patti calculated that it would take approximately 30 minutes of production staff time to produce, serve and clean up the average dinner served in her restaurant. She also believed that she would spend about five minutes of managerial time per dinner. Therefore, she had to make two calculations:

$$\text{Labor Cost per Unit} = \frac{30 \text{ Minutes per unit}}{60 \text{ Minutes per hour}} \times \$5.00 \text{ per hour} = \$2.50 \text{ per unit}$$

and

$$\text{Mgr Cost per Unit} = \frac{5 \text{ Minutes per unit}}{60 \text{ Minutes per hour}} \times \$5.75 \text{ per hour} = \$0.48 \text{ per unit}$$

for a total of \$2.98 in labor costs per dinner served.

The second type of cost is probably the easiest to calculate. This involves the costs of materials used as direct inputs to manufacture the product or provide the service. Since these direct inputs will probably be among your largest costs, it is essential that you know the cost of each input and how these costs can be controlled.

However, it may be difficult for the small business owner to control costs in some ways. One disadvantage of owning a small business may be the inability to obtain wholesale prices from suppliers for small quantities. Furthermore, finding reliable and affordable suppliers is a problem for any size business. Many businesses purchase inputs based solely on price. Firms doing this often end up with shoddy inputs or unreliable suppliers. Shoddy inputs lead to shoddy outputs and unreliable suppliers can ruin the reputation of your business. If a supplier cannot furnish you with the inputs you need when you need them, you should find another supplier.



Patti realized that understanding her direct input costs was extremely important. She knew that with the type of restaurant she was proposing, food costs would be her largest cost. Using a typical steak dinner as an example, she calculated the costs of the following raw materials:

Steak	\$6.00
Potatoes	0.50
Salad and Dressing	0.80
Green Beans	0.25
Tea or Coffee	0.50
Cake	1.00
Total Cost per hour	\$9.05

The third major cost category is that of overhead or fixed costs. These are costs required to operate the business whether or not a single product is sold. These include such items as rent, office supplies, depreciation, machinery purchases and maintenance, and insurance. Most of these costs are similar in nature to labor or direct input costs in that they are explicit cash costs. However, there is one exception: depreciation.

Depreciation is defined as a decrease in property value through wear, deterioration or obsolescence. Many small business owners view depreciation simply as a tax write-off and not as a real cost. There are several reasons why this view is extremely dangerous in the area of small business management.

Depreciation, while an implicit or non-cash cost, is a very real cost. Equipment does wear and/or becomes obsolete. For example, a truck can only run so many miles before it must be replaced. And, given the rate of change in today’s technology, a computer is all but obsolete the day it is purchased. Therefore, we can see that while depreciation is a cost that does not require a cash payout at the present time, it will have very real implications for the profitability and sustainability of the firm in the future.

Overhead costs are very difficult to calculate on a per-unit basis. The simplest method of estimating these costs is to sum all fixed costs for a given year and divide by the number of units that is expected to be produced over the lifetime of these assets. Patti Price performed these calculations and determined that her overhead costs were approximately nine cents (\$0.09) per unit.

To obtain the total cost of one unit of the product, you should simply sum the individual costs that we have discussed. But what about your profit? We now learn why this particular technique is called cost **plus** pricing. To calculate profit, you simply pick the rate of return that you would like to receive on your investment. You then multiply this rate of return by the total cost of the product and add this to the product cost.

After a great deal of examination, Patti felt comfortable with the costs per unit of sales that she had calculated (listed below).

Labor Cost	\$2.50
Managerial Cost	0.48
Raw Materials Cost	9.05
Overhead Cost	0.09
Total Cost	\$12.12

She had previously set a minimum standard rate of return of 10 percent on her money. This meant that Patti would earn a profit of $\$12.12 \times 0.10 = \1.21 per dinner. Adding this profit onto her cost per dinner ($\$12.12 + \1.21) meant that she should charge \$13.33 per steak dinner.

While the cost-plus pricing strategy is certainly better than the random pricing strategy, it does have one serious drawback. It does not account for the consumers in the marketplace and their ever changing wants. In other words, cost-plus pricing looks simply at the supply of the product with no recognition afforded to the demand for the product. The final set of pricing strategies look at both sides of the market.

Keystone or Comparative Pricing

There are several methods used in keystone or comparative pricing. The four methods examined here include: pricing from the wholesale price, simple average pricing, weighted average pricing and Author's Rule. Of the three, Author's Rule is by far the most comprehensive and provides the most accurate information. However, the other two methods, if used properly, can yield extremely satisfactory results.

The first method of keystone pricing involves doubling the wholesale cost of the product. The notion is that this price will cover the retailer's costs and return a profit to the firm. If this price does not accomplish these objectives, the price is adjusted either up or down until the objectives are met. Many craft producers see their items priced in this manner by retail shops.

The remaining keystone pricing methods involve gathering your competitors' prices of "like" products. This means that you would not gather gasoline prices or even steak prices if you were thinking of opening a pizza parlor. You would look at other pizza parlors to see what they charged and how many customers they attracted at that price.

The second method of keystone pricing, simple average pricing, is the easiest to calculate. This method involves surveying a number of your competitors² to determine their prices. You then average these prices to obtain a baseline price.



Simple average pricing has one major deficiency. It does not account for the number of customers that each competitor is attracting with their price structure. However, this method, as well as the other two pricing strategies discussed here, can provide valuable information about your competitors and the market. These strategies take advantage of any market research or experiences that your competitors have undertaken. These strategies could also give you insight into your competitors' costs of doing business. This is especially true in a highly competitive sector where profit margins are typically low. By comparing the costs you calculated in the previous section with your competitors' prices, you can determine to a large extent whether you are operating your business as efficiently as possible.

The third keystone pricing strategy discussed here is the weighted average pricing strategy. While this strategy is more complicated than the simple average pricing scheme, it does account for the number of customers that your competitors attract with their pricing strategies. There are five simple steps in determining a baseline price using this strategy:

1. Visit your competitors' operations and, for each competitor, count the number of customers they have during some time period.
2. Add up the number of customers who visited all your competitors' stores.
3. Divide the number of customers visiting each store by the total number of customers. This is the *weight* for each competitor.
4. Multiply each competitor's weight by the price charged at that establishment.
5. Add the numbers calculated in Step 4. This is your baseline price.

The fourth type of keystone pricing strategy, Author's Rule, is the most complicated, but also yields a great deal of relevant and valuable information. This method accounts for both market demand conditions as evidenced by your competitors' prices, but also accounts for the level of costs in your own operation.

Author's Rule involves the data you collected in the cost-plus pricing and weighted average pricing strategies. After the data from other operations has been collected, it is plotted on a graph with the price on the vertical axis and the number of customers on the horizontal axis. A straight line is then "fitted" to these plotted data points. This line represents the demand of consumers for the good or service being analyzed at various prices.

Once this has been accomplished, the variable costs per unit should be determined and plotted on the graph. In most types of businesses, this will be a horizontal line intersecting the vertical or price axis at the level of variable cost.

Using this pricing strategy, the baseline price is determined by bisecting the distance between the intersections of the demand line and the variable costs per unit line on the price axis. If you draw a horizontal line from this price to the demand line and then draw straight down to the customer axis, you can obtain an idea of the number of customers you can expect at this price.

² The firms you visit may not be competitors. You may be able to visit operations comparable to yours in other towns or cities. These operations should be of the same type as your operation and the town in which they are located should be as much like your town as possible.



Patti realized that the cost plus pricing method did not account for the tastes and preferences of her potential consumers. She decided to use the three keystone pricing methods to determine what information they provided for her operation.

Since there are no restaurants in Jamestown similar to the one Patti is proposing, she knew she would have to go to other towns and cities to find the prices she would need to perform her analysis. She decided to go to Knoxville, Crossville, Chattanooga, Cookeville and Nashville to find the necessary data. She knew that these cities had substantially larger populations than did Jamestown, but she hoped that the increased competition would mitigate this problem.

Patti collected data from 10 restaurants. All restaurants offered the same type of fare and atmosphere that she was proposing. She visited these restaurants during the peak dinner hour of 6:30 p.m. to 7:30 p.m. and she counted only those patrons who ordered, ate and left during those hours. Her findings were as follows:

RESTAURANT	PRICE	NUMBER OF CUSTOMERS
I	19.95	4
II	15.95	5
II	15.95	7
IV	17.95	9
V	13.95	11
VI	16.95	13
VII	12.95	14
VIII	15.95	17
IX	12.95	20
X	8.95	21

Patti decided to employ all three keystone pricing strategies in an effort to glean the maximum amount of information possible from the data she gathered. First, she used the simple average technique:

$$Price = \frac{19.95 + 15.95 + 15.95 + 17.95 + 13.95 + 16.95 + 12.95 + 15.95 + 12.95 + 8.95}{10} = \$15.15$$

From this information, Patti believed that her cost projections were in line with similar establishments. This belief stemmed from the fact that the eating establishment competition was fierce in the cities from which she gathered her data. However, she knew that this type of information did not account for the number of customers who patronized these restaurants. Therefore, she decided to employ the weighted average pricing technique.



Once this line is drawn, it becomes a simple task to finish the Author's Rule analysis. The firm's variable costs are shown and the distance between these variable costs and the intersection of the previously drawn demand line is bisected to show the baseline price. If a horizontal line is drawn from this price to the demand and then down to the customer axis, we can see the number of customers who are expected to patronize the firm.

The following graph shows the final outcome of Patti's price analysis using Author's Rule. Her variable costs per unit (total costs minus overhead costs) were \$12.03. The intersection of the demand line is at \$20 on the price axis. By bisecting this distance, Patti obtained a baseline price of \$16.01 and could expect 10 customers at this price.

Patti faced a dilemma. She had employed four different pricing techniques and calculated four different baseline prices. She had to decide which price to use as a baseline price.

After careful deliberation, Patti decided to use the baseline price yielded by the cost-plus method of pricing. This was not because she did not think that the keystone pricing methods that she employed had inherent errors. The real reasons lay in the characteristics of the data she had collected. These data came from cities that had a higher per capita income and a greater stock of wealth than did Jamestown. In light of this fact, Patti decided to use the baseline price of \$13.33 as calculated by the cost-plus method. However, due to existing pricing conventions existing in the restaurant industry, she decided to price her steak dinners at \$13.95.

There are two additional factors influencing the pricing decision that should be mentioned at this time. First, you should be in a position to evaluate any competition that you might have. Patti did not have any competing firms in Jamestown. There are several restaurants in the Jamestown area, but none that were offering the type of fare or atmosphere that she was proposing. If competition does exist, it may be necessary to use pricing techniques to gain a market share or to entice customers to visit your establishment.



The second item was mentioned in the marketing module, but requires a deeper discussion at this time. This is the relative wealth of the community in which you are doing business. If the community's residents cannot afford the prices you are charging, then they will not purchase your product. If you are in a position where you cannot lower your price, then perhaps you should consider another product.

Reference:

Boyd, John A., "Profit Maximizing Prices: Double Checking the Pricing Decision," NBDC Report No. 165, August, 1994. Nebraska Business Development Center.



A State Partner in the Cooperative Extension System
The Agricultural Extension Service offers its programs to all eligible persons regardless of race, color, age, national origin, sex or disability and is an Equal Opportunity Employer.
COOPERATIVE EXTENSION WORK IN AGRICULTURE AND HOME ECONOMICS The University of Tennessee Institute of Agriculture, U.S. Department of Agriculture,
and county governments cooperating in furtherance of Acts of May 8 and June 30, 1914.

Agricultural Extension Service
Billy G. Hicks, Dean

Handout 9-1

\$

Pricing Your Product



Material Cost (Direct Costs)

- **Raw Materials**
- **Inventory**
- **Supplies**
- **Labor**

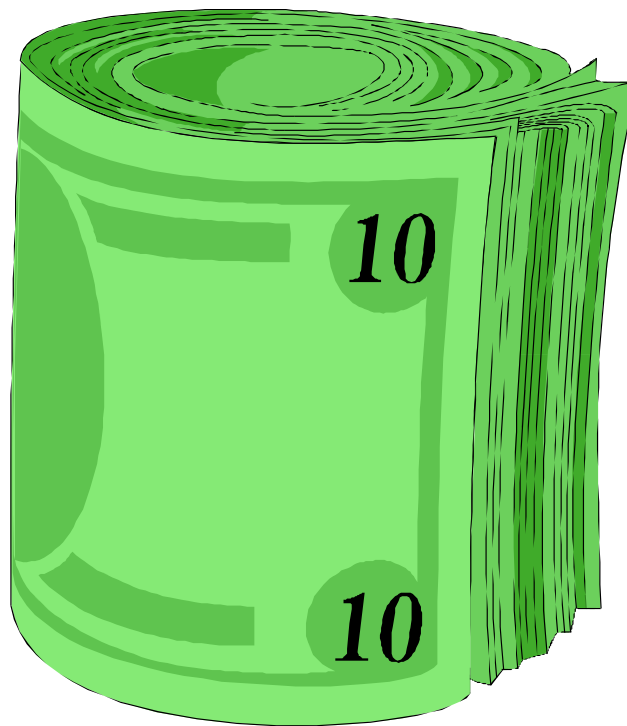
Overhead Costs (Indirect Costs)

- **Interest and Loan Payments**
- **Advertising and Promotion**
- **Product Sales**
- **Office Supplies**
- **Insurance**
- **Business Location**
- **Utilities**
- **Labor (Retail operation)**
- **Networking**

Salary



Profit Margin



Pricing of Products



Pricing of Services



Cash Flow and Other Essentials

Lesson 10

Target Audience:

High school youth

Objectives:

Students will learn:

- The kinds of financial records needed for the business
- How to use various financial records

Materials needed:

Transparencies or posters
Handouts
Examples of bookkeeping systems
Computer bookkeeping systems

Before you start:

Prepare handouts for student activities
Prepare transparencies

What to Do:

Introduction

The final piece of the business plan is the financial plan. The financial plan should pull together the operating, marketing and pricing information. It should give you some indications of the levels of viability and profitability that you can expect from your business.

A **viable** business produces enough cash to cover its cash expenses and maintain operations.

A **profitable** business earns a level of income sufficient to cover all cash and non-cash costs.

We will examine three types of financial statements. They are the cash flow statement, the income (profit and loss statement) and the balance sheet. Each of these statements will be discussed on the “pro forma” or a “projected” basis (estimates of what the firm is expected to earn in the future).

These statements are very important because they will show if the firm can show “paper profits.” If not, plans may need to be reconsidered. Most entrepreneurs tend to overestimate income and underestimate expenses.

(Transparency 10-1)

The **cash flow statement** shows the amount of cash available and how the cash is used over a specified time period (usually a month).

Cash available includes income from the sale of products or services, the beginning cash balance, owner-injected capital and the sale of firm assets. The data developed from the marketing and pricing research will give a good estimate of the income from sales.



Cash required includes expenses for operating, income tax payments, interest and principal payments on loans, cash outlays for capital expenditures and other expenses. The cash required section will include only those expenses that required an actual cash outlay during the specified period.

Borrowings reflect any loans acquired by the business to cover expenses until income is received.

The last section (**other**) is used to show the addition or withdrawal of funds from savings during surpluses or shortages. It also shows the level of cash on hand at the end of the operating period.

Activity:

Have students work through a case study using the Cash Flow Worksheet

(Transparency 10-2)

The **income statement** describes the revenues earned and the cash and non-cash expenses incurred by the firm. It also summarizes the taxes paid by the firm, as well as any unexpected events that may take place such as an insurance payment from an insured loss. The income statement is usually, though not always, reported on a yearly basis.

The revenue section of the income statement only records revenues to the firm. Unlike the cash flow statement, it does not report items such as owner-injected capital, operating and capital equipment loans or the total amount received from the sale of business assets. It does record such items as increases in accounts receivable and the gain or loss received from the sale of business assets.

The expense sections of the income statement include those production expenses necessary to manufacture the product or provide the service, interest payments on business loans, non-cash adjustments to operating expenses and depreciation. It does not include principal payments on business loans, since the loans are not a source of revenue for the firm. The income statement differs from the cash flow statement in that expenses are recorded in the period they are incurred, rather than when they are actually paid.

Depreciation is also recorded in the expense section. This is to plan ahead for the expense of equipment that has a limited life. (Example: Delivery Truck).

SHOW THE GENERAL FORM OF AN INCOME STATEMENT

(Transparency 10-3)

The **balance sheet** provides information about the business at a particular point in time. The cash flow and income statements measure a flow of funds, while the balance sheet measures the stock of wealth of the business on a particular day.

The balance sheet has three major sections: assets, liabilities and net worth. **Assets** describe what the business owns of monetary value, while **liabilities** are the debts owed by the business.



Assets and liabilities are grouped in three categories. Current assets or current liabilities are those items which will be used up or paid off in less than a year. Intermediate assets or intermediate liabilities are those items that will last more than one year and no longer than 10 years. Long-term assets or long-term liabilities are those items that will last more than 10 years.

Net worth is the difference between assets and liabilities. When a business owns more than it owes (the net worth of the business is positive), the business is said to be solvent.

The balance sheet will show the liquidity of the firm. Liquidity refers to the ability of the business to retire its current liabilities. If a business is liquid, it can sell off current assets and use the proceeds to pay off accounts payable and short term notes payable. The business can also meet its present obligations on intermediate and long term loans, present tax liabilities, etc.

Liquidity and solvency are used to measure the effect of an unexpected loss would have on the business (risk-bearing ability).

Summary:

The financial plan will provide a picture of the health of your business. A well-developed financial plan brings together all other parts of the business plan. It will provide indicators as to whether the business will succeed as planned, or if some changes need to be made in the overall plan.

Extended Session

Invite a business teacher, accountant, bookkeeper or other professional to discuss cash receipt and expense journals.



Cash Flow Statement

- **Cash available**
- **Cash required**
- **Borrowings**
- **Other**

Income Statement

- **Revenues of the firm**
- **Expenses (including noncash adjustments and depreciation)**

Balance Sheet

**Reflects liquidity
and solvency**

The final piece of the business plan is the financial plan. The financial plan should be the rope that ties the operating, marketing and pricing plans together. It should give you some indication of the levels of viability and profitability that you can expect from your business.

To more easily understand the financial health of the firm, we will develop and examine three types of financial statements. These include the cash flow statement, the income or profit and loss statement and the balance sheet. These statements will be discussed on a “pro forma” or a “projected” basis (estimates of what the new firm is expected to earn in the future). It is important to determine whether or not the firm can earn “paper profits.” Most entrepreneurs overestimate their sales and underestimate their costs. Therefore, if the firm is not earning a profit or is not viable on paper, it will probably face a great number of problems when it begins operations.

The first statement we will examine is the cash flow statement. This statement measures the viability of the business. The cash flow statement accounts for the cash available to the business owner or manager over the course of a particular time period and how this cash is used. Generally a cash flow statement is divided into monthly time periods; however, this statement could cover time periods as short as a day or as long as a year, depending on the particular needs of the business. While a new business could very well run into trouble on a daily basis, we will limit our discussion to a monthly time period.

The cash flow statement consists of four major parts: (1) cash available, (2) cash required, (3) borrowings and (4) other. Cash available includes several components. These components include the cash acquired from the sale of products or services (either cash sales or the retirement of accounts receivables), the beginning cash balance of the firm, owner-injected capital and the sale of the firm's assets, as well as other types of one-time cash injections. Borrowings (loans) are not included in this part of the cash flow statement because borrowing needs to be tracked in detail.

Since the primary source of cash should be sales, it is important to predict when these sales will occur. This is a difficult task to perform even in the best of situations. However, a great deal of progress has been made to the reach of this goal. The marketing and pricing research performed earlier will give you insight into the amount of the product that will be sold and the sale price for each unit. Multiplying the amount of the product that will be sold by the price per unit will give the revenues that can be expected each period.

The cash-required component lists those incurred expenses which require a cash outlay. These expenses include: (1) operating expenses such as the purchase of raw materials, fuel, electricity and payroll taxes; (2) income tax payments to federal, state and local governments; (3) interest and principal payments on loans; (4) cash outlays for capital expenditures such as vehicles and equipment; and (5) other expenses such as family living expenses and charitable contributions. This category does not include such non-cash expenses as



depreciation and changes in accrued expenses such as accounts payable and items such as prepaid rent. While this jargon sounds very complicated, in reality it is a very simple idea. Suppose the business owner has \$200 worth of repairs performed on a piece of equipment during the month of December, but the bill was not paid until January 8, of the next year. Since the bill was not paid in December, there was no cash outlay for the month of December and this transaction would not appear on the December cash flow statement. However, since a cash outlay did occur on January 8 when the bill was paid, the \$200 would show up on the January cash flow statement.

Borrowings are cash injections to the business in the form of new loans taken out to finance capital expenditures and production expenses.

The last section of the cash flow statement is designed to describe the addition (withdrawal) to (from) savings in times of cash surpluses (shortages). This section is also used to report the level of cash on hand at the end of the operating period.

To understand and analyze the cash flows of the business, it is usually desirable to construct a table such as the one below. This table shows the cash inflows and outflows by month, with totals for each month and category. If the cash balance at the end of the month is positive, then the business is said to be viable. The ability of the small business owner to take out an operating or capital equipment loan is oftentimes the difference between a business being viable or not. If a business is short on cash for one or two months, it will probably not have to close its doors. Banks and other creditors will allow the business some leeway in meeting its obligations. However, if the business has a continual negative cash balance for a long period of time, it will probably have to close its doors.

ITEM	JAN	FEB		DEC	TOTALS
Cash Available					
Beginning Cash Balance					
Sales					
Owner Injection					
Asset Sales					
Cash Required					
Raw Materials					
Labor Expenses					
Advertising Expenses					
Repair Expenses					
Tax Payments					
Borrowings					
Operating Loans					
Capital Equipment					
Other					
Additions to Savings					
Ending Cash Balance					

The Income Statement

The income statement measures the profitability of the firm. It describes the revenues earned and the cash and non-cash expenses incurred by the firm. It also summarizes the taxes paid by the firm, as well as any unexpected events that may take place such as an insurance payment from an insured loss.

The income statement is generally reported on a yearly basis. Like the cash flow statement, it can also report the income and expense activities of the firm on a daily, weekly or monthly basis. However, we will discuss a yearly income statement.

The revenue portion of the income statement **only** records revenues to the firm. Unlike the cash flow statement, it does not report items such as owner-injected capital, operating and capital equipment loans or the total amount received from the sale of business assets. It does, however, record such items as increases in accounts receivable (products and services sold on credit) and the gain or loss received from the sale of business assets.

The expense portion of the income statement includes those production expenses necessary to manufacture the product or provide the service, interest payments on operating or capital equipment loans, noncash adjustments to operating expenses and depreciation. It does not include principal payments on operating or capital equipment loans since the original loan is not a source of revenue for the firm.

There are two items in the expense portion of the income statement that bear a more in-depth examination. The first of these are the noncash adjustments to operating expenses. If we refer to our previous example of the \$200 repair bill, we see that the expense was incurred in 1994, but was not paid until 1995. Unlike the cash flow statement which reported the cash outlay in the second month, the income statement records the expense in the year for which the expense was incurred. Therefore, the repair bill would be recorded as an expense to the firm in 1994.

The second item that should be examined closely is depreciation. Many businesses view depreciation simply as a tax write-off. However, depreciation is much more than that. Depreciation is a monetary measure of the wear and obsolescence of a piece of equipment. For example, if you start a delivery business, you will probably have to purchase a car or truck. This vehicle has a limited life. You may be able to drive it 100,000 miles and then you must replace it. If this is the case, you are using up 1 percent of the vehicle's life every time you drive 1,000 miles. While this is not an specific monetary or cash cost, you must replace the equipment if your business is to continue to operate. Therefore, it is recorded as a cost on the income statement.



The general form of the income statement is as follows:

Value of Business Production

Minus: **Operating Expenses**

Equals: **Income from Operations**

Plus: **Gain (Loss) from Asset Sales**

Equals: **Net Business Income**

Plus: **Nonbusiness Revenue (Interest Income, etc.)**

Equals: **Income (Loss) before Taxes**

Minus: **Federal, State, and Local Taxes**

Equals: **Income before Extraordinary Items**

Plus: **Extraordinary Items**

Equals: **Net Income**

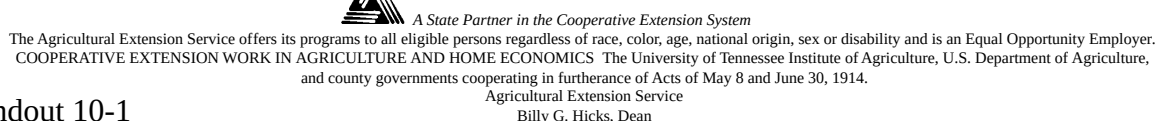
If the net income of the business is positive, then the business is said to be profitable. Does this suggest that the business will have to shut down if its net income for a particular year is negative? Not at all. However, if the business continues to lose money year after year, the net worth of the business (the difference between what the business owns and what it owes) continues to decline until the business is solely owned by its creditors. As the business approaches this point, it is said to become insolvent and will probably be foreclosed upon by its creditors.



The balance sheet summarizes the solvency and the liquidity of the business. While the cash flow statement and the income statement measures the flow of funds through the business for a particular time period, the balance sheet measures the stock of wealth of the business on a particular day.

There is one other major financial health indicator that can be gleaned from the balance sheet. This is the concept of liquidity. The firm's assets and liabilities are grouped into three distinct categories: current, intermediate and long-term. Current assets and liabilities are those items which will be used up or paid off in less than a year. These include items such as inventories, raw materials, accounts payable and cash. Intermediate assets and liabilities refer to those assets which will last more than one year but no more than 10 years. This includes most types of equipment and the loans used to purchase that equipment, motor vehicles and the cash value of life insurance policies. Long-term assets and liabilities last more than 10 years and include such items as land, buildings and mortgages.

One of the main uses of the liquidity and solvency concepts is to measure the effect an unexpected loss would have on the business (risk-bearing ability of the business). This is especially important when the business owner is seeking to borrow funds to either operate or expand the business. If an unexpected loss to the business would mean that the doors to the business would close or that the business would not be able to meet its present obligations, then it would be difficult for that business to borrow funds. In these days of stricter lending policies by banks, these types of measures become very important.



RESOURCES

BOOKS, CURRICULUMS, ETC.

America's Federal Jobs; J. Michael Farr.

Topics include: Description of more than 150 agencies including typical jobs and requirements * Job openings cross-referenced by education, skills and interests * Details on projected demand, pay and benefits * Professional, technical, managerial, clerical and support jobs * Application procedures and tips* Training, internships, special programs.

America's 50 Fastest Growing Jobs; J. Michael Farr.

The latest and most useful information on: Important labor market trends * Growth projections for more than 500 major jobs * Detailed descriptions for more than 50 of the fastest growing jobs * Growth projections by industry * Growth projections for the self-employed * Pay rates * Related jobs * Training required * Working conditions * Job search.

America's Top 300 Jobs; J. Michael Farr.

This reference contains detailed information on the top 300 jobs. Included is the following: Skills and training required * Salary range * Related jobs * Future growth projections * Working conditions * Much more.

America's Top Jobs for College Graduates; J. Michael Farr.

Detailed descriptions of about 60 of the top jobs held by college graduates including: Skills required * Working conditions * Education or training required * Pay rates * Labor market trends * Fastest growing jobs * Pay and projections by college degree * Growth projections by industry * Self-employment projections.

America's Top Medical and Human Services Jobs; J. Michael Farr.

Rapid growth in the health and human service areas means many opportunities for jobs at all levels of education and training. This book provides detailed descriptions on the top medical and human service jobs including: Skills required: * Working conditions * Education or training required * Pay rates * Labor market trends * Special career planning and job search section * Special sections on jobs by industry, training required and self-employment.

America's Top Military Careers; J. Michael Farr.

Based on information provided by the Department of Defense, this reference provides information on all major careers available in the armed forces including: Overviews of each branch of the military * Description of almost 200 jobs * Training requirements * Related civilian jobs * Advancement opportunities * Special career planning forms * Educational opportunities * Typical career paths outlines * Career planning tips.



America's Top Office, Management and Sales Jobs; J. Michael Farr.

More than 60 detailed job descriptions on all major office, management and sales jobs are included in this reference. Included are: Labor market trends * Special career planning and job search section * Additional data on over 500 jobs * Special section detailing jobs by industry, training required and self-employment.

America's Top Technical and Trade Jobs; J. Michael Farr.

This reference provides up-to-date information on more than 50 of the fastest-growing and most important jobs in the technical and trade areas plus details on: Labor market trends * Growth projection for more than 500 jobs * Pay rates * Training required * Growth projections by industry and self-employment * Working conditions * Job search details.

An Introduction to Job Applications; J. Michael Farr & Susan Christophersen.

Applications are an initial screening tool for jobs. This reference details how to: complete applications correctly, increase your chances for an interview, avoid problem questions designed to screen applicants and use applications to help you get good jobs.

Better Than a Lemonade Stand; Daryl Bernstein.

Written by a 15-year old, the author describes 51 of his favorite small businesses. He also gives tips on supplies, time needed, what to charge and how to advertise.

Biz Kids' Guide to Success; Terri Thompson

Written for kids, this reference is full of practical advice for young entrepreneurs. Included are how to: Choose a service or a product to sell * Make a detailed business plan and follow its guidelines * Attract customers and set prices * True stories of kids who have created small businesses of their own.

Career Choices, Academic Innovations.

Career Choices, A Guide for Teens and Young Adults; Mindy Bingham and Sandy Stryker

Instructor's and Counselor's Guide for Career Choices; Mindy Bingham, Sandy Stryker, Rochelle Friedman, Ed.D., Laura Light, M. Ed.

Workbook and Portfolio for the text Career Choices; Mindy Bingham and Sandy Stryker

Possibilities, A Supplemental Anthology for Career Choices; Edited by Janet Goode and Mindy Bingham

Lifestyle Math, Your Financial Planning Portfolio; Mindy Bingham, Jo Willhite and Shirley Myers

This curriculum goes beyond the traditional career planning materials with an interdisciplinary life skills approach. It is a complement to other career planning materials with practical advice: Overcoming obstacles and fears * Solving problems dealing with rejection and anxiety * Developing good attitudes and work habits * Recognizing and using mentors * Consequences of self destructive behavior * Career satisfaction * Empowers students to write their own plans.

The instructor's and counselor's guide provides exercise-by-exercise organization plans, discussion outlines, resource materials, classroom extension ideas and more.



Making Good Decisions - Decision-making techniques for your career and life.

Preparing for Work - Setting your goals, education & training choices and skills for success.

The Career Emphasis Series consists of four books which are designed to help youth begin their exploration of career and life planning. Each book contains background information in addition to interactive activities.

Career Exploration Series; Arthur Cutler, Francis Ferry, Robert Kauk, Robert Robinett.

Sci-O. A follow up to Job-O E, this career exploration reference is recommended for grades 7-10. Included are an interest survey, job matching chart and job projections.

Ag-O. Matches skills and interests with agricultural occupations.

Biz-O. Matches skills and interest with business, clerical, sales, office and administrative occupations.

Cer-O. Matches skills and interests with consumer/home economics and related occupations.

Dac-O. Matches skills and interests with design, art and communications occupations.

Ind-O. Matches skills and interests with industrial, construction, technical, mechanical, transportation and design occupations.

Sci-O. Matches skills and interests with scientific, mathematical and health occupations.

Includes detailed information on more than 40 major industries such as: Nature of the industry *

Occupations in the industry * Employment projections * Earnings * Training required * Working conditions * Advancement opportunities * Sources of additional information * Major trends.

This reference is written for the college graduate who is trying to locate a job. Included is a comprehensive job campaign strategy with practical, no-nonsense advice. Details include: Match your personal interests and education to a career * Create and maintain a network of contacts * Market yourself * Get the inside scoop on growing jobs * Handle difficult interview questions * Use the telephone to best advantage * Create your own job campaign notebook.

Dream Catchers, Teacher's Guide; Norene Lindsey.

This reference is designed to introduce career development in the elementary grades. Dream Catchers provides students with a knowledge base in career clusters, how academic skills relate to occupations and how interests, strengths and abilities tie into making career decisions. The teacher's guide provides lesson plans for all activities including independent, small group or class activity.



Effective Communication Skills; Marsha Ludden.

Employers rate good communication skills as one of the most important things needed for job success. The author in this reference presents five basic ways people communicate: speaking, listening, using the telephone, writing and nonverbal communication. Included is background information, tips for improving performance and specific work and life examples and activities to improve these skills.

I Am Already Successful; Dennis Hooker

I Am Already Successful, Instructor's Guide; Dennis Hooker

This reference includes 80 activities on developing motivation and self esteem. The activities are designed to help students discover themselves and learn how that self relates to others in a cooperative, non-threatening environment.

I Can Manage Life; Dennis Hooker.

I Can Manage Life, Instructor's Guide; Dennis Hooker

There are three main sections to this book, which is designed to help individuals define self. The first section is aimed at understanding self. The second section focuses on how to understand and improve relationships with other people. The third section looks at relationships as interactions with society and the world.

Leisure Search Inventory; John J. Liptak.

A self assessment inventory which utilizes leisure interests as the medium for determining career interests.

Job Savvy - How To Be A Success At Work; La Verne Ludden, Ed.D.

Job Savvy - How To Be A Success At Work, Instructor's Guide; La Verne Ludden, Ed.D.

Advice on how to survive the first days on a new job and position yourself for raises and promotions.

*Identify What Employers Most Value and Reward *Learn the Skills Employers Want *Find Out How to Make a Good First Impression *Dress and Groom for Success *Get Along with Supervisors and Co-Workers *Avoid On-the-Job Problems *Understand Benefits, Compensation and Related Money Issues *Get the Most from Performance Evaluation *Use Existing Skills to Best Advantage *Manage Time for Results *See the Importance of Being Reliable and Trustworthy *Learn Problem Solving Skills *Evaluate and Improve Personal Appearance *Earn Pay Increases and Promotions Through Specific Techniques *Much More

Knowing Yourself, Learning About Your Skills, Values and Planning Your Life; J. Michael Farr & Susan Christophersen

This book provides a specific process for clarifying your values and defining your unique skills. This new knowledge is then used as a basis for defining a successful lifestyle through a series of worksheets.



Learn and Earn for Fun and Profit, Leader's Guide; Maryland 4-H.

Making Decisions, Learning to Take Control of Your Life; J. Michael Farr & Susan Christophersen

Occupational Clues; J. Michael Farr.

Occupational Clues, A Career Interest Survey; J. Michael Farr.

Occupational Clues, A Career Interest Survey, Short Form; J Michael Farr.

Pathfinder, Exploring Career & Educational Paths; Norene Lindsay.

Pathfinder, Exploring Career & Educational Paths, Teacher's Guide; Norene Lindsay.

SDS, Self Directed Search Series; John L. Holland, Ph.D.

The Occupations Finder and Assessment Booklet

The Jobs Finder and Assessment Booklet

Career Options Finder and Assessment Booklet

Teenage Money Making Guide; Allan Smith.

The author provides a roundup of self-starting business opportunities for ambitious teens. He begins with useful advice on business realities and continues with job profiles that include estimates of set-up costs and advice on how to do the job and do it well.



The Career Exploration Inventory, A Guide for Exploring Work, Leisure and Learning; John J. Liptak, Ed.D.

This is a self-scoring and self-interpreting interest inventory. It can be used to explore career and job inventories based on interests in the three areas of work, leisure and learning.

The Quick Job Search, Proven Techniques for Finding a Job in Less Time; J. Michael Farr

A brief reference which details the most effective job search techniques designed to reduce job search time. Included are: Identify your key skills * Define your ideal job * Organize your job search time * Get more interviews * Answer tough interview questions * Write a winning resume * Find a better job in less time.

The Quick Job Search, Proven Techniques for Finding a Job in Less Time; J. Michael Farr

A dual Spanish/English version of the reference cited by the same title.

The Skills Advantage; J. Michael Farr & Susan Christophersen.

Information on how to identify personal skills and transfer that knowledge into developing a skills data base. This book describes a system that groups skill into three major categories: adaptive skills, transferable skills and job-related skills.

The Two Best Ways to Find a Job; J. Michael Farr & Susan Christophersen.

This reference focuses on two nontraditional job search methods—finding out about job openings through people you know and by making direct contacts with employers. This book details how to utilize these two methods to their fullest advantage.

The Very Quick Job Search, Get a Good Job in Less Time; J. Michael Farr

Covered in this reference are the most effective job search techniques which are designed to time required to locate a job. Included are: Important labor market trends * Skills identification * Defining your ideal job * Powerful interviewing skills * Organize your time * Superior resume * Undercovering the hidden job market.

The World of Work and You; Jist.

Exploring Careers - A Young Person's Guide to Over 300 Jobs; Jist.

Exploring Careers - A Young Person's Guide to Over 300 Jobs, Instructor's Guide; Jist.

The World of Work is designed for the young person who is beginning career exploration. It includes self-assessment activities, skills identification and helps the student begin career exploration by matching skills and interests to job clusters. The World of Work is designed to be used in conjunction with Exploring Careers. Detailed information regarding the jobs identified in The World of Work is included in this comprehensive guide. Narrative profiles are included about real people in real jobs. In addition, education and training options are included. The instructor's guide includes activity sheets to complement the reference material in Exploring Careers.



Why Should I Hire You? J. Michael Farr & Susan Christophersen.

Successful job interviews are crucial to getting a job. It is when the employer answers questions and makes decisions. This reference provides information on how to: make a good first impression, meet an employer's expectations, present the key skills you have for the job, use a three-step process for answering most questions, answer problem interview questions, negotiate for pay, ask for the job, close the interview, follow up after the interview and more.

VIDEOS

Be Your Own Boss: Start a Business; Learning Seed

This video highlights four young business owners who explain the details of planning and financing a business. They discuss the legal advice required, the need to carefully select a location for the business, the choice of a name and the legal organization of the business. Profiled are a musician, fashion designer, landscaper and retail business owner. (21-minute video, program guide)

Effective Resumes and Job Applications; Learning Seed.

This video is a step-by-step guide that will help participants to: Write an effective resume that stands out from the crowd * Include a cover letter that shows they're right for the job * Fill out job application forms with the best possible self-presentation skills.

If At First. . . How to Get a Job and Keep It; Guidance Associates.

Use this video to help students recognize and develop the skills they'll need to get and keep a job. The program presents realistic stories of seven teenagers entering the workforce. Each scenario is open-ended and invites students to explore the characters' choices and to analyze the character's relationships on the job. (120-minute video, program guide)

Student Workshop: Job Interview Skills; Sunburst Communications.

This video demonstrates techniques and strategies that contribute to a successful job interview. Utilizing role play, students are given an opportunity to practice typical interview questions. Calling advance preparation the key to a successful interview, the video details what students need to know to make a positive first impression. (30-minute video, teacher's guide)

Why Didn't I Think of That? Learning Seed.

This video is a self contained workshop in creative problem solving. Self-built obstacles to creative thought are explored. Viewers learn to change viewpoints, break mental habits, generate alternatives, search for alternatives, search for similarities and share ideas. The video requires students to stretch thinking skills in a series of 10 creative challenges that also teach usable problem skills. The challenges leave viewers muttering “why didn’t I think of that?” (28-minute video)

OTHER RESOURCES

A Mind of Her Own is a board game that centers around trivia questions on entrepreneurship.



Youth Entrepreneurship Program Evaluation

1. Before this class, had you ever considered starting a business of your own? ___Yes ___No
2. After taking this class, would you consider starting your own business?___Yes___No
3. If you decided to start your own business, would you contact The University of Tennessee Agricultural Extension Service for help?___Yes___No___Not Sure
4. How helpful were each of the following sessions in helping you understand how to become an entrepreneur?

1
Not
Helpful

2
A little
Helpful

3
Helpful

4
Very
Helpful

What Is Entrepreneurship

Is It For You?

Business Ideas That Work

Investigating Local Businesses

___Your Business Plan: The Starting Place

___Marketing Your Business

___Make It Legal

____ Operating Your Business

Price It Right

Cash Flow and Other Essentials

5. What was the most enjoyable part of the class?

____Interviews

___ Learning about other entrepreneurs

___Developing a business plan

___Creative thinking activity

____Pricing your product

___ Other

6. What was the least enjoyable part of the class? _____

7. Would you encourage friends to take this class? ____Yes____No

8. What is your gender? Male Female

9. What grade are you in? 9-10th 11-12th

10. What would you change about this class? _____



A State Partner in the Cooperative Extension System

The Agricultural Extension Service offers its programs to all eligible persons regardless of race, color, age, national origin, sex or disability and is an Equal Opportunity Employer. COOPERATIVE EXTENSION WORK IN AGRICULTURE AND HOME ECONOMICS The University of Tennessee Institute of Agriculture, U.S. Department of Agriculture, and county governments cooperating in furtherance of Acts of May 8 and June 30, 1914.

Agricultural Extension Service
Billy G. Hicks, Dean

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