Starting Your Own Business
A Self-Study Guide

Commonwealth of Learning (COL)
Virtual University for the Small States of the Commonwealth
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About this study manual

Starting Your Own Business: A Self-Study Guide has been produced by The Commonwealth of Learning. All study manuals produced by The Commonwealth of Learning are structured in the same way, as outlined below.

How this study manual is structured

The course overview

The course overview gives you a general introduction to the course. Information contained in the course overview will help you determine:

- If the course is suitable for you.
- What you will already need to know.
- What you can expect from the course.
- How much time you will need to invest to complete the course.

The overview also provides guidance on:

- Study skills.
- Where to get help.
- Course assignments and assessments.
- Activity icons.
- Units.

We strongly recommend that you read the overview carefully before starting your study.

The course content

The course is broken down into units. Each unit comprises:

- An introduction to the unit content.
- Unit outcomes.
About this study manual

- New terminology, as applicable.
- Core content of the unit with a variety of learning activities.
- A unit summary.
- Assignments and/or assessments, as applicable.

Resources

For those interested in learning more on this subject, we provide you with a list of additional resources at the end of this study manual; these may be books, articles or web sites.

Your comments

An Evaluation Form is included at the end of this study manual. This is your chance to give us feedback on any aspect of the course content and structure. Your constructive feedback will help us to evaluate this course and make enhancements where necessary.
Course overview

Welcome to Starting Your Own Business

Welcome to Starting Your Own Business. You have made a wise decision to embark on this course, and we are certain that what you will learn will help you start up your own business.

Any aspiring business person has to come to terms with basic concepts associated with a business. Throughout this course, we intend to discuss concepts like 'entrepreneurship', 'entrepreneur', 'enterprise', 'the business idea', and factors that influence your intention to start up a business.

While preparing the contents for this course, we took special measures to ensure that you would be able to relate to the different concepts introduced. In addition, we have kept the language as simple as possible to ensure clear understanding of the content. The activities that have been integrated throughout the units will enable you to gradually and systematically gather information and the right 'ingredients' to be able to write up your business plan: the most important tool that will support your efforts to start up your own small business.

Starting Your Own Business — is this course for you?

The contents of the Starting Your Own Business course have been written for:

1. anyone who wishes to start their own business;
2. anyone who already owns a small business, but would like to grow it while learning more about the planning process and the business aspects fundamental to sustainable growth, such as marketing, customer care, financial management etc.;
3. any pre-university learner or mature learner who would like to get a formal introduction to entrepreneurship and business planning.
Course aims

The aim of this course is:

1. To assist you to assess whether or not entrepreneurship is for you.
2. To create awareness of the entire process of starting up a small business.
3. To enable you to acquire competence in strategic business planning prior to starting up a small enterprise.
4. To create awareness to the importance of business planning, market research and knowledge for the successful entrepreneur.
5. To assist small business owners in growing their businesses in a systematic, planned manner.
6. To foster learners’ personal growth and encourage continuing professional development.

Course outcomes

Upon completion of Starting Your Own Business: A Self-Study Guide you will be able to:

- **Self-assess** your individual characteristics in relation to the requirements of entrepreneurship and determine if you are prepared to become an entrepreneur.

- **Create** an effective business plan for your small business idea.

- **Implement** the different stages of strategic business planning, including research about the legal requirements for launching a small business and devise record-keeping strategies to meet your country’s legal requirements.

- **Compare** the potential of different business ideas.

- **Perform** SWOT analyses and apply them to your competitors, your own business and even yourself.

- **Analyse** the local environment for designing marketing strategies that will lead to financial sustainability of your own small business.
Timeframe

[What is the expected duration of this course?]

[How much formal study time is required?]

[How much self-study time is expected/recommended?]

Study skills

As an adult learner your approach to learning will be different to that from your school days: you will choose what you want to study, you will have professional and/or personal motivation for doing so and you will most likely be fitting your study activities around other professional or domestic responsibilities.

Essentially you will be taking control of your learning environment. As a consequence, you will need to consider performance issues related to time management, goal setting, stress management, etc. Perhaps you will also need to reacquaint yourself in areas such as essay planning, coping with exams and using the web as a learning resource.

Your most significant considerations will be time and space i.e. the time you dedicate to your learning and the environment in which you engage in that learning.

We recommend that you take time now—before starting your self-study—to familiarize yourself with these issues. There are a number of excellent resources on the web. A few suggested links are:

  The “How to study” web site is dedicated to study skills resources. You will find links to study preparation (a list of nine essentials for a good study place), taking notes, strategies for reading text books, using reference sources, test anxiety.

- [http://www.ucc.vt.edu/stdysk/stdyhlp.html](http://www.ucc.vt.edu/stdysk/stdyhlp.html)
  This is the web site of the Virginia Tech, Division of Student Affairs. You will find links to time scheduling (including a “where does time go?” link), a study skill checklist, basic concentration techniques, control of the study environment, note taking, how to read essays for analysis, memory skills (“remembering”).
http://www.howtostudy.org/resources.php

Another “How to study” web site with useful links to time management, efficient reading, questioning/listening/observing skills, getting the most out of doing (“hands-on” learning), memory building, tips for staying motivated, developing a learning plan.

The above links are our suggestions to start you on your way. At the time of writing these web links were active. If you want to look for more go to www.google.com and type “self-study basics”, “self-study tips”, “self-study skills” or similar.

Need help?

The Course website is presently at http://wikieducator.org/VUSSC/Content/Entrepreneurship/Starting_Up_a Business.

What is the course instructor's name? Where can s/he be located (office location and hours, telephone/fax number, e-mail address)?

Is there a teaching assistant for routine enquiries? Where can s/he be located (office location and hours, telephone/fax number, e-mail address)?

Is there a librarian/research assistant available? Where can s/he be located (office location and hours, telephone/fax number, e-mail address)?

Is there a learners' resource centre? Where is it located? What are the opening hours, telephone number, who is the resource centre manager, what is the manager's e-mail address)?

Who do learners contact for technical issues (computer problems, website access, etc.)
Assignments

To complete this course, you must work on the following three assignments:

- A SWOT analysis at the end of Unit 3
- A business plan, at the end of Unit 5
- A marketing plan at the end of the last unit, Unit 6

Assignments must be completed in the order they are presented and may be handed in to your tutor, or sent to your tutor by email.

[What is the order of the assignments? Must they be completed in the order in which they are set?]

Assessments

How many assessments will there be in this course?
Are they self-assessments or teacher-marked assessments?
When will the assessments take place?
How long will the assessments be?
How long will learners be allowed to complete the assessment(s)?
How long will it take a teacher to mark the assessment(s)?
Getting around this study manual

Margin icons

While working through this study manual you will notice the frequent use of margin icons. These icons serve to “signpost” a particular piece of text, a new task or change in activity; they have been included to help you to find your way around this study manual.

A complete icon set is shown below. We suggest that you familiarize yourself with the icons and their meaning before starting your study.

<table>
<thead>
<tr>
<th>Activity</th>
<th>Assessment</th>
<th>Assignment</th>
<th>Case study</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discussion</td>
<td>Group activity</td>
<td>Help</td>
<td>Note it!</td>
</tr>
<tr>
<td>Outcomes</td>
<td>Reading</td>
<td>Reflection</td>
<td>Study skills</td>
</tr>
<tr>
<td>Summary</td>
<td>Terminology</td>
<td>Time</td>
<td>Tip</td>
</tr>
</tbody>
</table>
Unit 1

Is Entrepreneurship for You?

Introduction

Welcome to Starting Your Own Business! You decided to take this course because you want to become an entrepreneur. This means you want to start and run your own business in your community. You may already have a great business idea… or not… but you know you want to work for yourself, follow your own ideas and be independent. You may also have aspirations to grow your business and provide employment opportunities in your own community.

Whereas the idea of entrepreneurship may sound exciting, it may not necessarily be for everyone. There are number of questions you need to ask yourself to determine whether or not you should go ahead with your great idea. In this Unit you will explore what it takes to be an entrepreneur and the personal characteristics that are important for entrepreneurs to succeed.

Upon completion of this unit you will be able to:

- **Explain** how entrepreneurship can impact your life and the life of your family.
- **Identify** key personal characteristics that are fundamental to becoming a successful entrepreneur.
- **Assess** your own personal characteristics as they relate to successful entrepreneurship.
- **Identify** key entrepreneurial skills that are fundamental to successful entrepreneurship.
- **Describe** your own entrepreneurial skills and strategies for complementing the skill set necessary for successful entrepreneurship and business sustainability.
So... You Want To Be An Entrepreneur

Being an entrepreneur is not easy. In order to succeed, entrepreneurs must have, or they must develop, very specific characteristics. Let’s look into these characteristics a bit further. But first, let’s see if you think you are an entrepreneur!

Take a look at the following personal characteristics and reflect on whether or not you posses some or all of them. As you go along, make a tick on the column that you think best describes yourself in regard to each characteristic.

<table>
<thead>
<tr>
<th>Personal Characteristics</th>
<th>Never</th>
<th>50% of the times</th>
<th>Almost always</th>
<th>Always</th>
</tr>
</thead>
<tbody>
<tr>
<td>I am self confident</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I like to take moderate risks</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I am very independent and like to show initiative</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I am a very organised individual</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I have a desire to set and achieve goals</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I am good at working flexible, long hours</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I enjoy finding the best solutions for problems</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I am a very positive individual</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I take responsibility for all my decisions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I can learn from past experiences and welcome feedback and advice from others</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I have the self-discipline to work on my own</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I have a clear vision of the goals I want to achieve in my life</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I look at all the tasks I have to undertake with a positive attitude</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I am comfortable prioritising my working tasks each day</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I am an adventurous kind of person. I like to start new ventures, activities, etc.</td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>
Well done! Some entrepreneurial characteristics reflect your personality and your way of thinking and behaving. In other words, you are born with them. But keep in mind that personal characteristics are rarely permanent. Individuals change and grow with many different influences, including how our own environment, culture, education, interests, etc., impact us. You may certainly think that you have different characteristics now than when you were a teenager, for example. 😁

Other characteristics are definitely learnable. You may already have many characteristics that are necessary to become a successful entrepreneur. You may also want to strengthen the characteristics that you feel you are weak in and, there may be other characteristics that you know you will never develop. Keep exploring your entrepreneurial characteristics throughout this program, and start with believing that becoming an entrepreneur is absolutely possible!

The important thing is for you to be self-aware and develop a keen sense of self: know your strengths and your weaknesses and think ahead of ways to address your weaknesses.

For example, if you are not a very organised individual, maybe you can take a course in time and task management, or you may plan to hire somebody who can support you with day-to-day organisation of your business.

Let’s now take a look at the common characteristics that make up a successful entrepreneur.

**Characteristics of Entrepreneurs**

Entrepreneurs are innovative; and as a result, are always able to see possibilities which would not be normally seen by ordinary persons. They have a strong desire to succeed; and so, it is often quite common for entrepreneurs to fail at several initial enterprises before finally achieving their goals and desires. Also, entrepreneurs have the capacity to work long hours, ensuring that their business ideas are fully developed rather than, take holidays and time off from their businesses.

Some of the personal characteristics that make entrepreneurs successful include:

- A high need to achieve their goals, coupled with a high degree of self-confidence.
- Being prepared to take moderate risks.
- Resilience, being able to take “no” for an answer without giving up.
- Having initiative and independence.
- Possessing leadership and organisational skills.
- Seeking creative solutions to problems.
- Having a positive outlook.
- Taking responsibility for decisions.
- Having a clear vision of goals.
- Having a positive attitude to tasks.
- Being enterprising (recognising business opportunities).

Now look at the table below and reflect on some of the qualities that help people to better understand themselves as entrepreneurs.

<table>
<thead>
<tr>
<th>Passionate about their work</th>
<th>Entrepreneurs will view the business as labor of love instead of just &quot;work&quot;. In addition to that, successful entrepreneurs have self-determination. Thus, the passion and self-determination will drive entrepreneurs to be persistent in building their organization/company.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clear vision</td>
<td>Having a clear vision of the goals to be achieved is fundamental to drive entrepreneurs and extremely important for the whole company. This vision must be flexible and adjusted continuously as the company matures and new opportunities arise. All of this requires entrepreneurs to have a creative imagination in order to recognize business opportunities and envision alternative scenarios as they face the many challenges of starting up an enterprise.</td>
</tr>
</tbody>
</table>
| S.M.A.R.T.                 | S.M.A.R.T. goal setting guides successful entrepreneurs. S.M.A.R.T. goal setting means that your goals are:  
  - **Specific**: Are your goals precise, detailed and unambiguous?  
  - **Measurable**: How will you measure it? Goals can be measurable by quality, quantity and cost.  
  - **Achievable**: Is it achievable? Although goals should be a stretch to the team's capabilities, |
they must be within reach and realistic.

- **Relevant**: Does it contribute to the goals and strategies of the team? Should focus on practical results to be achieved.

- **Timebound**: when will this goal be complete? Is the completion data realistic?

Using the SMART acronym in goal setting helps entrepreneurs think carefully about the process of goal setting for their business.

<table>
<thead>
<tr>
<th>Resilience</th>
<th>Becoming an entrepreneur is not easy. There will be great, exhilarating moments, but there will also be moments of disappointment. Resilience is the capacity within self to bounce back or recover after a disappointment. Entrepreneurs must be resilient to stay their course if they believe they are on track, and flexible to adapt to environmental change.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organisation</td>
<td>Entrepreneurs, especially the ones that go “solo”, are the business. They must carry out a diversity of tasks while meeting deadlines. It is therefore extremely important for entrepreneurs to have excellent organisation skills, so that they are able to manage their time and tasks effectively.</td>
</tr>
<tr>
<td>Competent in human relations</td>
<td>Entrepreneurs must be able to inspire their employees to work towards their vision and achieve common goals, while nurturing creative spirit among them.</td>
</tr>
<tr>
<td>Self-awareness</td>
<td>Self-awareness will help entrepreneurs to understand their personality traits and how these traits will affect decision making or other people. For example, self-awareness is useful when the company’s growth forces entrepreneurs to change their management style from hands-on management to professional management where the entrepreneur is not involved in the day to day decision making anymore. It is so valuable for entrepreneurs to recognise when it is no longer feasible for them to continue to do everything by themselves - this is self awareness in action. Many entrepreneurs admitted that shifting to a different way of leading is the most challenging change they had to undergo in order to sustain their companies’ growth.</td>
</tr>
</tbody>
</table>
Excellent technical knowledge, whether it is producing goods or services, is very important for entrepreneurs to influence and engage other stakeholders in leading the business in its start-up stages. The entrepreneur is the business in the start-up stage and their technical know how will influence and excite others to get involved.

Entrepreneurs must have a deep knowledge about the market and the industry in which they wish to start a company.

Successful entrepreneurs make customer satisfaction the company’s central focus without limitation on the imagination on how or how much to satisfy the customers.

Now that you have a good idea of what makes up a successful entrepreneur, reflect on your own personal characteristics as an entrepreneur.

1. Identify and write down all of your perceived strengths.
2. Identify where there are gaps in your entrepreneurial profile i.e. weaknesses.
3. Decide how you can meet the gaps e.g. if being organized is a challenge for you, who do you know is an excellent organiser that you could learn from?
4. Decide how you can make use of your strong points in order to succeed in the business venture you have in mind in your community.

Don’t forget to make notes in your learning journal!

Perfect! As you reflect on what makes a good entrepreneur, complete the following activity:

Write down three of your strengths that will make you a good entrepreneur.
b Name two entrepreneurs in your area/district and from the table above, identify up to five (5) characteristics that make them successful as entrepreneurs. If you have the chance, try to interview them in an informal conversation, perhaps over the phone.

Well done! By now you have a good idea of the personal characteristics that are common to successful entrepreneurs. You also have a good perception of your own individual characteristics. Now the question is… Is entrepreneurship for you? Let’s take a look at what it takes to be an entrepreneur and the skills that are necessary for entrepreneurial success.

What Does it Take to Be an Entrepreneur?

Becoming an entrepreneur offers rewards and challenges, like anything in life, really. Rewards can include the fact that:

- You work towards achieving financial stability
- You control the outcomes of your business
- You control the type of work you do
- The work you do is meaningful to you
- You control how much you work or don’t work
Challenges can include the fact that:

- Investors and banks may not believe in your idea
- You may not get enough financing to start your business
- You may have to face many barriers as you attempt to gain credibility, like being a visible minority or having a visible disability, for example

Before you decide to go ahead with a great business idea, you should reflect on what it takes to be an entrepreneur. Do you have the right personality? Are you willing to make some sacrifices? Are you resilient enough to push through disappointments in order to meet your goals? Is your family supportive of your intent to become an entrepreneur? These are just a few of the questions you should try to answer before you commit to starting a small business.

**Why Do You Want to Be an Entrepreneur?**

Determining why you want to be an entrepreneur will lead you into thinking about the rewards, risks and challenges involved in starting up a small business. So, why do you want to be your own boss?

Below you will find a list of reasons that people often give as motivating factors to becoming entrepreneurs. Check all the ones that apply to you:

I want to be my own boss so that I can:

- Become more independent
- Set my own hours of work
- Do work that I really enjoy
- Care for my family while I work
- Have the opportunity to manage a family business
- Have an opportunity to contribute to society when no one else gives me the chance for employment

Good job! The idea of owning a business can be appealing to many people for a variety of reasons. Being an entrepreneur does offer you more flexibility and allows for creativity in problem solving, it puts you in control of your own financial situation and it allows you to explore
avenues that you are keen to pursue from a professional perspective. However, being an entrepreneur is not easy and the learning curve is steep. You must be prepared to take on a lot of responsibility, take risks and learn new skills that will allow you to manage every facet of your small business. This may mean long working hours, especially in the beginning, which will have an impact on your personal life. Therefore it is important that you think about the following issues before you make a commitment:

  a) How much effort are you willing to put in? (i.e. 100% plus)
  b) How much can you invest in the business? (financially, time wise and emotionally?)
  c) How much do you need each month for essential household expenses?
  d) How good are you at establishing your own priorities and following through?
  e) Are you a "self-starter"?
  f) Do you work well alone or do you need others to provide motivation? Or are you self motivated?
  g) Are you going to work out of your home and what changes will you have to make to do so?
  h) If you work from home, will you be able to "separate" work from home life - interruptions, etc.?
  i) How long can you go without cash coming in from your business? E.g. 6 months, 1 year?
  j) How do you think you are going to feel about not having income coming in immediately or sporadically?
  k) What will the impact be on your family, good or bad?
  l) If you need additional resources to live on while your business is getting started, where can you get them?

As you reflect on these issues and assess why you want to be an entrepreneur you will be ready to make an informed and rational decision. If entrepreneurship is for you, you are on your way!

Entrepreneurial Business Skills

So, you decided that you have what it takes to become an entrepreneur in terms of your own personal characteristics. Hopefully you will also have the support of your family, friends and community. But what skills do you need now that you have decided to go ahead? Let’s face it, as a solo entrepreneur you are THE business! No matter the size of your business, you are the visionary, accounting, marketing, sales, customer service, and technical expert. You are boss and subordinate, executive and front-line
staff. How well you juggle the roles and tasks determine how successful you will be.

You may be asking yourself:

*Do I need all these business skills to be a successful entrepreneur?*

The answer is simple:

*No need to be an expert in all these fields!*

However, having a good understanding of the basic principles in all these business areas will increase your chances for success. For example, if you are not good with numbers, you may decide that you will not be doing the bookkeeping. You will hire a professional bookkeeper instead. However, you will be much more effective at managing your business and making financial decisions if you understand basic accounting principles that will enable you to intelligently analyse financial information and quickly make sound business decisions.

If you identify accounting skills as a weakness in the skill set you will bring to the business, perhaps you need to plan for some training in this area as you start developing your business plan.

There are core business skills that will contribute to your success as an entrepreneur. They can be grouped in **three categories:**

1. Communication skills
2. Interpersonal skills
3. Business skills
   i. Planning
   ii. Accounting and legal
   iii. Marketing
   iv. Management

Take some time now to assess what business skills you can bring into your business. Consider the following questions and use the space provided to make notes about your reflection.

**Communication skills**

a. How clearly do you communicate your ideas in writing to others? And how clearly do you communicate your ideas in spoken words?
Interpersonal skills

Do you enjoy being around people and working with others? Are you a good listener? Can you be diplomatic when trying to resolve a conflict? Do you give positive, encouraging feedback to those around you? Are you able to give tactful feedback for improvement to others? Do you present yourself in a professional manner, or in a manner that will be acceptable in your business area?

Do you need help in these areas? If so, do you know where you can get some help or training? E.g. think of someone who exhibits these skills all the time and have a conversation with them to learn what their talent is.
Business skills

- **Planning**: What planning skills do you have? Are you able to set goals and timelines? Do you enjoy plotting a course to achieve your goals?

- **Accounting and legal**: Do you have any skills in accounting and bookkeeping? Do you enjoy bookkeeping? Do you enjoy working with numbers and reconciling accounts? Can you understand financial statements? Do you have any skills in legal issues? Can you understand legal documents, like contracts, for example? Do you have an idea of what is involved in setting up a business?

- **Marketing**: Do you have any marketing skills (i.e. selling you
idea)? Do you have any idea how you can market your business? Do you know how to create a marketing plan for your business?

Management: What management skills do you have? Have you managed people or a project in the past? Can you motivate and inspire people to get things done? Can you delegate tasks and monitor people and projects to meet deadlines?

Do you need help in these areas? If so, do you know where you can get some help or training?

Planning:

Accounting and legal:
Well done! This exercise is meant to assist you in determining what your entrepreneurial skills are and in assessing the areas where there may be gaps in your skills. Good communication and interpersonal skills are extremely important in your role as entrepreneur. You will need to communicate effectively with your staff and your clients, your banker and your investors. In addition, unless your business idea involves you being locked in a laboratory creating something, you will need to relate well with others. Being a good listener goes a long way in business. And you will need tact to deal with difficult clients and even difficult staff in order to diffuse conflict. It is also a good idea to have some business skills, but you can always hire experts in these areas, ask friends for help or research the areas yourself. This exercise means to make you think through your own skills in business so that you can determine well ahead whether or not you will need help in any of these areas.

For example, you may not know much about the legal issues involved in starting up a business, so you may need to plan ahead to involve a lawyer. You can ask a lawyer friend for help, or you may need to hire one. If you need to hire a professional lawyer, you will have to budget accordingly. You can also choose to research what is involved in starting up a business by contacting local business centres, searching the Internet or contacting your Government bodies. To do this you need to plan ahead and allocate some time.

By now, you should have identified your own entrepreneurial skills as well as strategies for complementing your skill set. This information will be very helpful as you create your business plan further along in this study guide.
Entrepreneurship – Advantages and Disadvantages

Now that you have a good understanding of what it takes to be an entrepreneur, see if you can come up with some advantages and disadvantages of entrepreneurship.

Advantages:

Disadvantages:

Activity

You may have identified some of the following advantages and disadvantages to entrepreneurship:

Advantages:

- You are your own boss

- You are independent and you have freedom and flexibility (working hours, time off from work)
Unit 1  Is Entrepreneurship for You?

- You may be able to spend more time with your family
- You do something that you enjoy
- You may make more money
- You will enjoy a challenge that will keep you motivated

Disadvantages:
- You may have to be prepared to work long hours
- Work may interfere with your family life
- Steep learning curve: you have to have a variety of skills and be able to multitask
- You take a financial risk
- You may not have any benefits, like medical care, vacation subsidy, etc.

You may have found other advantages and disadvantages. However, the important thing is for you to be able to think through some of the issues and develop strategies to minimize their impact in your business and in your life.

Unit summary

With careful consideration about the advantages and disadvantages of entrepreneurship, you conclude your study of the first unit of this study guide. Good job!

So far, you explored the personal characteristics that contribute to the success of an entrepreneur and you assessed your own personal characteristics. You learned about the entrepreneurial skills that lead to successful entrepreneurship and you also assessed the skills you already have versus the skills you may need to get. You also reflected on strategies to complement your own skills so that you develop a sustainable business.

You are now ready to move along with your business idea, on the path to entrepreneurship! The following units will guide you through the stages of starting up your own business, culminating in the development of an effective business plan. Good luck!
Unit 2
What Is Entrepreneurship?

Introduction

In Unit 1 you looked at what it takes to be an entrepreneur and you decided you wanted to become one! If you are already a small business owner, you decided that you wanted to grow your business in a sustainable manner. This could be a very exciting and trying time. It is important that you learn as much as you can about starting up a small business so that you are prepared for what lies ahead. The following units of this study guide will guide you through the stages of business start up.

In this unit, you are going to learn about entrepreneurship in general. You will learn about the different types of business structures you can choose as you register your business and you will start to develop your business idea into more specific terms.

As you interact with the ideas introduced in this unit, you will be conversant with the different concepts related to entrepreneurship, including the two main categories of businesses: product-oriented and service-oriented.

Upon completion of this unit you will be able to:

- **Use** appropriate terms that are related to the start up of a small business within the context of creating a business plan.
- **Suggest** at least 3 reasons for setting up businesses.
- **Identify** at least 3 business ideas that could be implemented in your own community to meet existing needs.
- **Identify** the type of business structure that best suits your situation.
- **Differentiate** between product-oriented and service-oriented business types.
- **Describe** factors that influence the starting of a business, and relate them to your situation.
Entrepreneurship: The practice of starting new organizations, particularly new businesses, generally in response to identified opportunities to meet specific market needs.

Terminology

Business Management: The process of planning, organizing, leading, coordinating and controlling resources to produce goods and services to satisfy customer needs.

Unlimited liability: When business owners are personally responsible for all the debts in the company. Being personally responsible means that business owners must cover business debt with their own private property if necessary.

Limited liability: When business owners are not personally responsible for all the debts in the company. The liability is limited to the value of the total shares issued for the business.

Definitions

Now that you have decided that entrepreneurship is for you, and you may already have a business idea in mind, it is important that you familiarise yourself with some key concepts in the field of entrepreneurship.

You will start your study by looking at the following definitions:

- Entrepreneurship
  - Entrepreneur
- Small Business
- Business Management
  - Business
  - Management

What Is Entrepreneurship?

There has been a great deal of attention paid to the subject of entrepreneurship over the past few years, stemming primarily from the discovery by economic analysts that small firms contribute considerably to economic growth and vitality.
Defining Entrepreneurship

Entrepreneurship, can be defined as:


Generally, new organisations started by entrepreneurs are small businesses. However, individuals that start large business ventures are also called entrepreneurs.

Defining Entrepreneur

An entrepreneur is:

A person who owns and operates a business enterprise, and who takes all the risks involved in the operation of the business.

As you have learned in Unit 1, entrepreneurs have very specific characteristics that allow them to be successful at what they do.

Defining Enterprise

Almost any business or organisation can be called an enterprise. Often times, businesses and organisations are led by entrepreneurs.

An enterprise is any activity that provides customers with a product (goods/services) with a view to making a profit.

What is a Small Business?

A small business is:

A business "that is independently owned and operated and which is not dominant in its field of operation."

Small businesses are defined using size standards. Different countries have different standards to determine the size of a business. These standards include:

1. Number of employees
2. Amount of money used to start the business – Start up investment
3 Rate of turnover - average annual receipts of the business

For example:

- In St. Vincent & the Grenadines: A small business is one that employs ten persons or less and has an initial investment of twenty five (SEC25,000.00) or less.

- In Belize: A small retail business is one which has annual sales receipts under $2 million.

The African Development Bank suggests the following guidelines to characterise small businesses for countries in Africa:

<table>
<thead>
<tr>
<th>Types of small businesses</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Informal Operator / Survivalist</td>
<td>no employees</td>
</tr>
<tr>
<td></td>
<td>no distinction between business and personal finances</td>
</tr>
<tr>
<td></td>
<td>does not keep records</td>
</tr>
<tr>
<td></td>
<td>does not pay taxes</td>
</tr>
<tr>
<td></td>
<td>is not registered with any authority</td>
</tr>
<tr>
<td></td>
<td>engages in business activities to pay for daily expenses</td>
</tr>
<tr>
<td>Informal Micro or Small Business</td>
<td>less than 10 employees</td>
</tr>
<tr>
<td></td>
<td>no distinction between business and personal finances</td>
</tr>
<tr>
<td></td>
<td>may not keep records</td>
</tr>
<tr>
<td></td>
<td>may not pay taxes</td>
</tr>
<tr>
<td></td>
<td>may not be registered with any authority</td>
</tr>
<tr>
<td></td>
<td>has physical address and contact details</td>
</tr>
<tr>
<td>Formal Micro or Small Business</td>
<td>between 10 and 49 employees</td>
</tr>
<tr>
<td></td>
<td>keeps records</td>
</tr>
<tr>
<td></td>
<td>has separate bank account</td>
</tr>
</tbody>
</table>
## What is Business Management?

There are several definitions for Business Management. The definitions vary depending on the perspective of the person giving the definition.

### Defining Business

First, let us look at the following definitions for Business:

- Business is defined as “an organization operated with the objective of making a profit from the sale of goods or services.”
  

- Business is defined as ”an enterprise, commercial entity, or firm in either the private or public sector, concerned with providing products (goods or services) to satisfy customer requirements.”
  
  www.georgetown.edu/uis/ia/dw/GLOSSARY0816.html

If you look closely at these two definitions you will see that there are certain words which appear in both.

Can you identify two of these words? Write them down in the space provided below:

- _____________
- _____________

Well done! You certainly identified “**goods**” and “**services**”! So you can conclude that a business must focus on providing goods and/or services.

### Types of small businesses

<table>
<thead>
<tr>
<th>Types of small businesses</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>▪ pays taxes</td>
</tr>
<tr>
<td></td>
<td>▪ is registered with all required authorities</td>
</tr>
<tr>
<td></td>
<td>▪ has physical address and contact details</td>
</tr>
</tbody>
</table>

Figure 1 – retrieved from www.nepru.org.na, January 2008. Report: Towards an African e-Index, SME e-access and usage.

Typical examples of small businesses include: small shops, hairdressers, tradesmen, bakeries, solicitors, lawyers, accountants, restaurants, guest houses, photographers, small-scale manufacturing, etc.
for a profit, also called revenue. Next, let’s look at the definition of Management and why it is important in any business.

**Defining Management**

Now, look at the following definitions for Management:

- Management (derived from the old French word: *ménagement*, which meant "directing, conducting", and from Latin: *manu agere*, which meant "to lead by the hand") characterizes the process of leading and directing all or part of an organisation, often a business, through the deployment and manipulation of resources (human, financial, material, intellectual or intangible).
  

- Mary Parker Follett (1868 - 1933) defined management as "the art of getting things done through people."

- One can also think of management functionally, as the action of measuring a quantity on a regular basis and of adjusting some initial plan, and as the actions taken to reach one's intended goal. This applies even in situations where planning does not take place. From this perspective, there are five management functions: planning, organising, leading, coordinating and controlling.

In some cases though, these definitions, while useful, are far too narrow. The phrase "management is what managers do" is also a prevalent definition, conveying how difficult it is to define management. Management tasks and responsibilities change as the business world changes and evolves, and the definitions shift according to those changes.

As you can see, there is no single definition for Business nor for Management. However, now that you have looked at a few definitions, how would you define “Business Management”? Write your own definition in the space provided:

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

For the sake of this course, let’s define Business Management as:
The process of planning, organising, leading, coordinating and controlling resources to produce goods and services to satisfy customer needs.

Your definition was probably not very different from the one we gave you. The important thing is to keep in mind that Business Management is a process that involves planning, organizing, leadership and monitoring as businesses set out to achieve their goals.

**Why Do We Need to Define Business Management?**

The structure and demands of business management are constantly changing. As a result, it is important that you determine what it means to you as you start thinking about starting your own small business.

As you envision starting your own small business, keep in mind that understanding the different definitions of Business Management will:

4. ... Provide you with areas of focus for your business.
5. ... Make you aware of the different academic perspectives on the topic.
6. ... Allow you to compare the different perspectives to that of your own.

It may also help you to clarify your own thoughts on which perspective you should take as you start your own business.

In your learning journal, respond to the following questions keeping in mind the business you want to start:

**a** What is your main focus/perspective as you start up a small business?

**b** Does it relate to the definition of Business Management you wrote earlier on?

**c** Now that you have linked your focus/perspective with Business Management, look at the definition you wrote and see if you need to re-write it.

Your learning journal is a place to keep your reflections as you work through this course. Keep it up-to-date and discuss your entries with your tutor as you have the chance.

To start up your formal small business you need to register it with your government. Before you register your business, it is important that you understand the different types of business structures available, so that you can choose the one that best fits your needs.
There are two different types of business structures:

1. Sole trader
2. Partnership

**Sole Trader**

A sole trader, also called sole proprietorship, is the simplest form of business organisation. You can start the business on your own using your own money, without having to set up a complicated legal structure. However, to get recognised and to be able to do business legally, you will need to register your business at the registrar of companies or at any equivalent government body. All the income earned through the business is yours but you may have to pay for income tax.

The legal constraint for the sole trader however, is that you have **unlimited liability**, that is, it means that you are the only person responsible for all the debts of the business. In case of bankruptcy, you will be liable for the business’ debts and therefore your creditors may claim all your private property.

**Advantages**

- It is relatively cheap to operate and easy to start.
- Does not require formal accounting record-keeping. Taxes are usually paid through the personal income tax.
- All the profit is yours.
- You are your own boss.
- You do most of the work.

**Disadvantages**

- You have NO limited liability.
- All the risk is yours.
- Challenging to take sick leave or holiday time.
- You may not have all the skills to launch a business on your own.

**Partnership**

A partnership is, in essence, a sole trader but having the ownership shared between partners. A partnership should have a partnership agreement (a
legal document) drawn up to show the rights and responsibilities of all the partners, as well as each one’s share in the business. There may also be 'sleeping partners' - that is those who own a share of the business but are not involved in the day-to-day running of the business. A partnership also has unlimited liability. Partnerships are common in professions such as accountancy and law.

If you have access to the Internet, you may read a bit more about general partnerships at:

http://www.quickmba.com/law/partnership/general/

You may also find the article The General Partnership at the end of this module in the Readings section, in case it is difficult for you to access the internet in your community.

In terms of legal structure, the partnership can be incorporated into a firm. There are two main categories of firms:

- Private limited company
- Public limited company

**Private limited company**

A private limited company is one where the liability is limited, that is, the liability is limited to the value of the total shares issued for the business. This means that any debts are debts of the company and not of the individual owners. So, in case the company faces financial difficulties, creditors can only sue up to that amount and cannot sue for the personal property of the shareholders.

Wikipedia has an article on the subject of business shares that provides in depth information about this issue. If you have access to the internet, you can read the article online at:

http://en.wikipedia.org/wiki/shares

The article Share (finance) is also available at the end of this module in the Readings section, in case it is difficult for you to access the internet in your community.

A limited company has to be registered legally, and the legal document must include a Memorandum and Articles of Association. There need only be one director and they have to prepare annual accounts and submit them to the government body responsible for the registration of companies.
Private limited companies can range significantly in size. They may consist of a small family based business or they could be large multi-national companies. The shares of a private limited company can only be sold privately, that is, they cannot be offered for sale in a stock exchange for example.

**Advantages**

- Partners have limited liability
- Easier to raise larger sums of capital to start up or grow the business
- More flexible than Public Limited Companies, which you are going to study next
- Opportunities for bringing in more skills

**Disadvantages**

- You can only sell shares privately
- Not very flexible if expansion becomes possible
- More legal formalities than sole traders

**Public limited company**

Like a private limited company, the ownership in a public limited company is determined by the total number of shares issued. However, the key difference is that these shares can be freely bought by anyone on a stock exchange. Ownership is therefore open to anyone who wants to buy shares. Public limited companies have legal requirements in that they have to produce annual reports and accounts and file them with the government body acting as registrar of companies.

There are various other requirements to forming a public limited company, including:

- It must have at least two directors.
- It must have a fully qualified Company Secretary.

**Advantages**

- You have limited liability.
- It is easier to have access to finance.
- More funds are available for investment

**Disadvantages**

- You have to publish annual financial statements that provide a “picture” of the financial situation of the company
Others, e.g. auditors, have to look at your books to check for transparency in all accounting procedures.

Greater need to conform to legal procedures.

Depending on the percentage of share ownership, owners might lose control of the enterprise.

Using your local business directory, try to identify the different types of businesses that exist in your community. In the space provided, list at least five businesses and categorize each one according to the business types you have just studied.

Good job! Share the results of this activity with some of your peers and see if you are in agreement with each other’s classification. If you have any questions in regards to the different types of businesses, do not hesitate to contact your tutor at the earliest opportunity.

About your business idea

Most likely, you decided to take this course for two reasons:

1. You have a great idea for a small business and want to learn how to go about its implementation in order to create a successful small business,

2. You are already running your own small business and want to learn about how you could make your business more successful.

So, now that you have a good understanding of the key concepts in entrepreneurship and the different types of legal structures for your business, let’s define your business idea.
Activity

In the spaces provided, describe your idea for a small business in your community. If you already have a name for it, write it down as well! If you already own your own small business, write down its name and describe it below. Don’t forget to include ways in which you would like to grow your existing business:

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

If you don’t have any ideas for a business yet, but you are certain that you want to be a small entrepreneur in your community, then engage in the following discussion:

Discussion

Get together with some of your peers, some family members, some community leaders, etc., and discuss ideas for new businesses in your community.

If you come up with a business idea, give your business a name! You can adjust/change this name later.

If you can’t get any ideas for now, don't worry! Continue to work through this unit. You will come up with something soon!

Advantages of Starting Your Own Business

Why do you think people venture into business?

You may reflect on your own or just brainstorm with your friends about the various reasons for which people start their own businesses.

Your reflection probably was centred around some advantages of owning a business. Regardless of the type of business you decide to create, there are advantages and disadvantages to ownership. Some of the advantages include:
1 Entrepreneurs have complete freedom of choice in all aspects of the business. They can select the business location, employees, customer service philosophy, etc.

2 A start up business can start fresh without having to follow old practices.

3 To start a small business you may not need a lot of capital investment. Many businesses nowadays start up as home-based businesses that people can run from their homes, like for example consultancy businesses, basket making, baking goods, etc.

4 Being your own boss can give self-satisfaction and can also help you develop leadership skills and obtain recognition in your community.

**Disadvantages of Starting Your Own Business**

1 Starting your own business takes time, effort, energy and requires a lot of hard work.

2 It takes time to establish a new business in the marketplace. Finding clients takes time and effort, as does developing your own niche of operation.

3 Starting a new business is ‘risky business’. You must be ready to face the potential risks, financial and otherwise.

**Developing a Business Idea**

More often than not, new business opportunities occur from changes in industry, social, or economic environments. New business ventures can arise due to a variety of factors, including:

- External causes
- Voluntary self-employment
- Hobbies

**External Causes**

1 **Changes in industry stimulated by advancing technology and new knowledge spur new products and services**: A good example of this is the rapid change we have witnessed in the Information and Communications Technologies (ICT), particularly in the field of telecommunications, and in the Information Technology (IT), especially in the field of computer hardware and software, the internet and the e-learning technologies. Over the last decade, these rapid changes have spun off many business opportunities, for example:
the increased internet speed and bandwidth have created
opportunities for the provision of online courses for conventional
education, life-long learning and training,

the increased access to more affordable computer equipment and
software has created opportunities for provision of technical,
support services at varying levels, not only to corporations but also
to individuals that use computers in their homes, etc.

2 **Accidental discovery**: Sometimes a person stumbles upon an idea
instead of deliberately trying to invent a new product. This was the
case of the Post-It product of the 3M company. You can read more
about it in the following article:

Wikipedia has a very interesting article on the Post-It product history.
Visit the website for more in depth information:

http://en.wikipedia.org/wiki/Post-It

The article *Post-it Notes* is also available at the end of this module in the
Readings section, in case you have difficulty accessing the internet in
your community.

3 **Changing perceptions**: There are times when the social environment is
an element of new venture creation. For example, the emphasis on
health activities in the 1980's created the opportunity for the creation
of full-service health clubs.

4 **Economic changes**: Often this type of change creates opportunities
that arise out of necessity. For example, the current energy crisis is
opening up the market to new ideas for alternative sources of energy.
In turn, car manufacturers will design different types of engines to
 sustain different energy sources which may even lead to a new car
 parts and accessories industry! As you see, change is a good catalyst
for business opportunities. And entrepreneurs are often times the first
ones to “see” the opportunity and seize it by creating new businesses
to respond to a perceived market need.
Reflection

Take a few minutes to reflect on these four external causes. Consider the following questions to guide your reflection:

- Have they influenced any new businesses in your region?
- Has the IT revolution spurred on new business in your country? Can you name the business?
- Do you know any businesses in your area that have been based on a new idea?
- What type of business would not be possible if the perceptions of the environment in your country where the same as those of fifty years ago?

Voluntary Self-Employment

It is becoming more and more common that individuals with prior work experience create new ventures:

- Frequently workers perceive ways to modify a product or improve a service, which leads them into starting a new venture. They are apt to doing so as they gained knowledge from their years of experience in a former workplace;
- A person can decide to become a self-employed manufacturer by obtaining the right to manufacture a product based on a patent;
- An individual observing scant competition afforded to a particular business can go out and duplicate that same business, as long as there is a market.

Individuals may also follow family traditions and take on an existing family business, especially if they have been serving the needs of an established market or community for a long period of time.

Hobbies

Hobbies can turn into business ventures. For example, a love of horses or animals can lead someone to an opportunity of running a riding school or an animal farm.
Factors that Influence the Business

Now that you have looked at some of the key concepts around starting up a small business, and discussed the reasons for getting into business, you should examine factors that can influence the type of business you may wish to create. There are many factors, some of them positive and others negative. We shall select a few to discuss, then as you read further, we expect you to come out with some of your own. Kotler and Armstrong (2004) have come up with several factors, which we discuss below:

- Cultural factors
- Economic factors
- Political factors
- Environmental factors

How exactly can these factors impact on business? Let’s examine each one in turn.

Cultural Factors

The culture of a country refers to customary practices and beliefs that people uphold. Jarvis (2002) has observed that culture is made up of institutions and other forces that affect society's basic values, perceptions, preferences, and behaviours. The entrepreneur should remember that people grow up in a particular society that shapes their basic beliefs.

Culture affects the way consumers think and use certain products. As an example, in some cultures, it is not proper for women to deal with the public e.g. selling goods or wares. This is a crucial factor for business purposes. Firstly, should the mother of a family identify a business idea that is likely to bring income to the family, she will not be able to operate the business because of cultural constraints. Secondly, should she, nevertheless, go ahead and start a business, that might lead to conflicts in the family, and in turn that might cause the family to break up. Not to mention that if customers don’t buy her wares, her business will fail.

Now, with reference to your own culture, which cultural aspects are likely to influence the type of business you have in mind?

Make note of these factors in your learning journal as these will help you in planning your business.
Economic Factors

The economy of a country refers to activities in which people are employed to generate revenue. Two economic factors determine a country's attractiveness or unattractiveness for business:

- Firstly, a country’s industrial structure shapes its product and services needs, income levels and employment levels. If a country displays a solid industrial structure then the climate is attractive for business creation and development. For example, the economy of Botswana is based on diamonds and beef industry, which makes it attractive for business investment.

- Secondly, in a subsistence economy the vast majority of people engage in simple agriculture. They consume most of their output and barter the rest for simple goods and services. In such a situation, there are few market opportunities for a business and the climate for investment is, therefore, unattractive. For example, the economy of Mauritius depends on tourism and agricultural production, specifically sugar production, making it less attractive for business investment.

How would the economy of your country affect your start-up business?

It is very important to think about these factors before starting up a new business. As you reflect on these factors, make notes in your learning journal. You will see they will assist you when you start planning your business.

Read the following example to guide your own reflection:

Let us imagine that you had set up a retail shop at a settlement where employees depend on diamond mining for their wages and salaries. Suppose the mine closes down because diamonds have been depleted or there is a slump in the industry. How does that impact on your business?

To begin with, workers will be retrenched and will no longer have money to spend. Secondly, they might migrate to new places where they are offered jobs. This means you end up without customers, hence no income from the business. You will be left with goods that no one wants because your market has been affected. Eventually, you have to close shop.
Using the above as an example, give an example from your own country in which economic factors could affect the type of business you are thinking of creating.

Activity

Your response should show that you considered the type of economic activities predominant in your region: industrial, subsistence agriculture, commerce, etc. You should also have considered whether the economic activity is going strong or not. If industries are shutting down, people are not earning wages and will have no available income to spend. Or if you are thinking of providing any kind of support to local industry, if they are not profitable, then they will not be able to sell them your product or services.

Political Factors

Nations differ in their political and legal approaches. Such factors should be taken into account when deciding whether to set up a business. Government bureaucracy is an example. This refers to the way a particular government facilitates or constrains business registration and operation. If, as an example, only citizens are allowed to operate certain types of business, that means non-citizens will find it difficult to start up businesses even though they have the capital to do so.

Political instability is another factor that you should consider before deciding to set up your business. A country is said to be politically unstable if there is violence or when there is no rule of law. Unstable political situations discourage business. As an investor, you may not feel safe to set up a business where there is no assurance of security.

With reference to your own country, suggest examples of bureaucracy and political instability as hindrances to setting up business enterprises.

Activity
Bureaucracy and political instability will vary from one country to another. In some cases there might be no instability. In your response, you may have identified issues like a very hierarchical government structure as an impediment to conduct business. For example, in the case of architects who need to get permits from government in order to complete their projects, the bureaucracy caused by very strict government rules will prevent the work to be completed on time, which will cause hardship. Therefore, if you wanted to start an architecture business you should probably think twice! 😞 Whichever your response, compare it with your peers or even with family members and see if there is a consensus as to these political factors.

It should also be noted that for a given country, well-conceived regulations can encourage entrepreneurship, and ensure fair business practices. Thus, governments develop public policies to guide business practices. This is done through a wide range of laws and regulations.

The government of Botswana, for example, encourages investment by foreigners and non-citizens. However, the law prescribes that certain businesses be confined to citizens only. In other instances, the law allows non-citizens to enter into joint ventures with locals. The idea is to ensure that business interests of citizens are protected from unfair competition.

Reflection

With reference to political factors in your country, think about how setting up businesses is regulated by law.

Environmental Factors

The environment of a business can be both physical and political. In business terms, the physical environment refers to the place where your business is situated. Location will determine the success or failure of the business. If you were to locate the enterprise, say a hotel, in a place where there are bad roads, it is most likely that customers will not be able to reach you. So, in that case, the environmental factor would be a major constraint for setting up the enterprise.

Natural resources are an important environmental factor. These are needed as inputs by entrepreneurs. Business persons should, therefore, be aware of trends in the natural environment. For example, in many countries, shortages of raw materials can affect setting up businesses. Air pollution chokes many of the world's cities, while water shortages are already a big problem in many parts of the world.
Reflection

- Are you aware that some countries experience serious water shortages?
- Further, have you ever thought how shortage of water, or air pollution can affect the establishment of businesses?
- What shortages are experienced in your country?

Fuel is yet another environmental factor that impacts on business. Most countries in Southern Africa (e.g. Botswana, Zimbabwe, Zambia, Malawi, to name a few) have the greater percentage of their populations living in rural areas. Entrepreneurs who set up businesses in rural areas have to contend with serious transport problems. This is because prices for petrol and diesel continue to escalate. As these prices go up, the cost of doing business has to be passed on to rural consumers, who are largely poor and can ill afford higher prices for goods and services.

Unit summary

In this unit you learned to define key concepts related to entrepreneurship and you identified a business idea.

You learned that businesses can be classified in two large groups: sole trader and partnerships and you analysed the differences between these two types of businesses. If you remember, one of the key differences between these business types that you must consider when you start up your own business is the issue of liability (limited or unlimited).

You also explored some of the motivations for people to enter into business by themselves, be it voluntary self-employment, and idea to improve on an existing business, a hobby or even a fortuitous discovery. As you got to the end of Unit 2, you reflected on the factors that can impact business: economic, political, cultural and environmental.

References


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Unit 3
Planning For the Business

Introduction
You are now into the third unit of Starting Your Own Business. We hope that you found the first couple of units interesting to follow and relevant to your own situation of wanting to become an entrepreneur. You may have found some study areas challenging, requiring a bit more effort on your part. Nevertheless, you have managed to complete them and you are now moving on to Unit 3. Excellent!

In Unit 3, you will work with your business idea to initiate the planning stages for starting up your own business. You will learn about naming your business and the steps you can take to protect your idea from others. You will look at your competition and will assess their weaknesses and strengths, so that you can start to position your idea in your local marketplace.

Upon completion of this unit you will be able to:

- Discuss the rules and regulations to be followed in setting up a business in your own country/community.
- Follow the required procedures for naming a business.
- Discuss issues regarding the trademark of goods and services.
- Assess the local opportunities for starting up your business.
- Identify local competitors in your field of business.
- Analyse the business environment using the SWOT analysis.
- Carry out a SWOT analysis for your business idea and for your competitors.
Legal Requirements for Your Type of Business

As you think of starting a business, you should get information on the laws, rules and practices that apply in your country or community in regard to the type of business you want to start up. These may include, for example:

- requirements for registering a business, including procedures for naming your business
- local laws that govern businesses,
- the tax code for small businesses,
- professional codes of conduct relevant to specific occupations, etc.

The authorities may offer certain facilities and incentives to entrepreneurs starting a new business. These may take the form of:

- grants to set up a small business
- micro-finance opportunities
- tax relief
- legal aid
- recognition in the community, etc.

Make sure you take some time to research some of these options, as your new business may qualify to benefit from some of these incentives. The best place to start is your local business center, if there is one in your community.

Naming the Business

If you intend to trade using a name other than your own; in other words if you intend to create a name for your business, you must seek permission to use that name. You must also ensure that no other business has registered that name before you can put up that name on your building or on your business cards.
When you are in the process of starting a company, these checks are done before your business is registered. It is built into the registration process, but it may take time for you to get the approval you need. Therefore, following the procedures to name your business should be one of the first tasks you do. You may want to think of two or three names just in case the name you have chosen is already in use. Once you have approval to use the name of your choice, you can move on to registering your business.

**Government Regulations and your Business**

As the owner of a small business/enterprise you will have to deal with government rules, regulations and laws. Taking the time to research the applicable regulations before you start your business is as important as knowing your market. It is important for you to be familiar with the laws that will govern your business so that you can plan ahead to ensure that your operations will be law abiding. For example:

A common law governing most businesses may be that businesses must be registered in their geographical area of operations, which means that you must register your business before you begin operations.

Another common law may be related to insurance. Can you operate your business without insurance, or is insurance mandatory?

Another example of laws governing businesses could be related to whether or not you are allowed to run your business from your own home. Often times there are municipal zoning bylaws that restrict business operations in specific parts of a city.

As you see, knowledge of laws and regulations can be very helpful as you think about your business and start planning ahead.

Bear in mind that regulations vary by industry. If you're planning to start a food service business, for example, you will have to deal with the health department. You must carefully investigate the regulations that affect your industry. Being out of compliance could leave you unprotected legally, lead to expensive penalties, and jeopardize your business.

**Licenses and Registration**

There are many types of licenses for operating a business. However, they may not all be applicable to your type of business. Here are some examples of licenses you may need to get once you register your business:
- **Traders licence** gives individuals permission to operate businesses in specific areas and permit trading in specific types of business.

- **Certificate of Occupancy/Permission** from the Planning Division in your country/area of operation must be sought if you intend to put up a building/stall or if you intend to change the use of an existing building or stall.

- **Liquor licence** must be had if your business will be involved in the sale of alcoholic beverages.

You may also be required by law to register for tax purposes:

- **Value Added Tax (VAT) registration** (where applicable) is a requirement by law. There can be some exemptions, therefore it is important for you to determine if this will apply to your business.

- **Tax requirements** - In many countries, small businesses/enterprises sole proprietor and partnerships are exempt from direct taxes. However, the business owners become liable. Most companies/corporations are required to pay corporate taxes. In some countries, the company/corporation may be tax-exempt for a specified period of time or if their sales value doesn’t reach a certain amount per year.

It is extremely important for you to research all the tax laws that can apply to your business so that you are able to plan to run your business without fiscal liability.

**Activity**

Go to your tax department, or to a representative of your Ministry of Finance, or Ministry of Small Business, if there is one in your country, and collect information about the laws that rule the starting up of new businesses. If there is a small business association in your neighbourhood, you can also visit them and ask for information.

Once you collect and read all the information you were able to gather about the requirements for small business start-up, make a list of all the things you have to do before you can start your business operations. We suggest you draft up a checklist like the one we suggest below in a separate sheet of paper and keep it accessible throughout the planning stages of your business.

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Well done! If there is a Business Centre in your community, show them your checklist and get some feedback. They will be able to provide you with additional guidance. Make sure you use this checklist to keep you on track with all the things you must do before starting your business: check each “to do” from the list as you complete the task. Keep your list in a separate sheet of paper and pin it down in a place that is visible to you as you engage in planning your business.

As you see, it is important to consult with your tax department to get particular information as it relates to your specific type of business.

**Legal Structure**

To ensure credibility and compliance with the law and regulations, the small business person/entrepreneur must choose a legal structure that best suits the needs of the business.

As you learned in Unit 2, there are two major forms of legal structures:

1. **Sole trader**, also commonly called *sole proprietorship*, and
2. **Partnership**, which can be incorporated into a private or public limited company, also referred to as a *corporation*.

In Unit 2 you also learned that there were advantages and disadvantages to each one of these legal structures.
In the space provided, briefly list some of the advantages and disadvantages of choosing a sole trader or a partnership for the registration of your business:

- **Advantages of Choosing a Sole Trader:**
  - Easy to start with minimal bureaucracy.
  - Lower operational costs due to fewer legal requirements.
  - No need for complicated accounting systems.

- **Disadvantages of Choosing a Sole Trader:**
  - Full liability for all business-related issues.

- **Advantages of Choosing a Partnership:**
  - Limited liability for partners.
  - Easier access to raise investment money.

- **Disadvantages of Choosing a Partnership:**
  - More complicated paperwork.
  - Higher operational costs.

Good job! Surely you remember from Unit 1 that the **sole proprietorship** generally is very easy to start. It requires the least amount of bureaucracy (licenses, registration, etc.), and it is also cheaper to operate, as there are fewer legal requirements that you must conform with. For example, you do not need to set up complicated accounting systems to operate your business, which could add to your operation costs as you may need to hire an accountant. Conversely, you assume all liability for running and operating your business. A **partnership** requires more complicated paperwork to get started, it is more expensive to operate but you have limited liability and easier access to raise investment money.

To start a partnership, you must engage in some discussions with the partners and your attorney. A Partnership Deed/Agreement must be drawn up and you may need some assistance from someone who is not to be involved in the business, like your business attorney, or advisor, or counselor at the business center. When the partnership is incorporated into a corporation with limited liability, it requires a bit more in terms of time, planning and formal legal requirements.

In some countries, to start a corporation you are required to prepare Articles of Association and Memorandum of Associations. To produce these documents, you will need the assistance of an attorney, advisor or counselor. Business Centres in your community are usually able to offer assistance with some of these services. These documents must be submitted to the Registrar of Companies/Business in the country before you can begin operations. When these documents are approved you will be issued a Certificate of Incorporation. This gives you permission to begin operations.

Keep in mind that these procedures are not the same for all countries. As a matter of fact, in recent years many countries have removed some of these requirements. Entrepreneurs need only supply basic information on the business to get started. Some of these measures have been created as a
way to encourage the establishment of small businesses as a way to improve local economies. It is therefore important that you check with your attorney and the Registrar of Companies/Business in your country to determine what the specific requirements are for your business.

Protecting Your Idea

If applicable to your business, you may want to apply for trademarks, patents and/or copyright.

**Trademarks:** Trademarks are names or symbols used in trade that are subject to regulation by government. Trademarks and service marks may be registered for a specified term. You apply to register a trademark when you create a uniquely identifiable name or symbol that will represent your products or services. It will be your image in the market. The trademark registration procedures are different from country to country, so make sure you investigate the procedures in your own country. Again, local business centres may be able to provide some assistance in this matter.

If you have access to the Internet, you may look at an example of how to register a trademark in the United Kingdom at:

http://www.ipo.gov.uk/t-essentialreading.pdf

You may also read about trademarks at:

http://en.wikipedia.org/wiki/Trademark

If you do not have access to the Internet, you may find the document *Trademarks* in the Readings section of this study guide.

**Patent:** A patent is a set of exclusive rights granted by a state to a person (the patentee, usually the inventor) for a fixed period of time in exchange for the regulated, public disclosure of certain details of a device, method, process or composition of matter (substance) known as an invention, which is new, inventive, and useful or industrially applicable. The rights granted to an inventor of a product or process exclude others from being able to make, use, and sell or import/export the product or process. You will want to apply for a patent when you create a product or a process that you want to market exclusively, without competition from other companies.

6th thing to do: Decide whether you need to apply for a patent or trademark. Decide on a copyright notice for your business
If you have access to the Internet, you can read more about patents at http://en.wikipedia.org/wiki/Patent

If you do not have access to the Internet, you may find the article Patent in the Readings section of this study guide.

**Copyright**: Copyright is a set of exclusive rights regulating the use of a particular expression of an idea or information. At its most general, it is literally "the right to copy" an original creation. In most cases, these rights are of limited duration. The symbol for copyright is ©, and in some jurisdictions may alternately be written (c). When you add the copyright symbol to all your original work, the copyright law of your country protects you and your work. The copyright law prevents other individuals and businesses from using your material without giving you recognition for the work, and in some cases, even pay you royalties. For example, you may add the copyright symbol when you create an image or write a poem, or write an accounting process for your company, etc.

If you have access to the Internet, you can read more about copyright at http://en.wikipedia.org/wiki/Copyright

If you do not have access to the Internet, you may find the document Copyright in the Readings section of this study guide.

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**Opportunities in Your Environment**

In order to identify opportunities for business startups in your environment/community you must consider the economy of your country as well as your local economy, and ask yourself a few questions. First you may ask what is economy?

Economy may be defined as the state of the country or region in terms of the production and consumption of goods and services, and the availability of money.

Keeping this definition in mind, you may want to start identifying business opportunities in your community by asking some questions about the local products and services.
Reflect on the following questions and, in the space provided, write your answers:

a  What is/are the main activity/ies of the people in your area?

______________________________________________________________________________

______________________________________________________________________________

______________________________________________________________________________

b  Have these activities changed in recent times?

______________________________________________________________________________

______________________________________________________________________________

______________________________________________________________________________

c  Is there a product/service that is lacking or that could support the main economic activity in your area?

______________________________________________________________________________

______________________________________________________________________________

______________________________________________________________________________

d  Do you think people could/would pay for this product/service if it was provided?

______________________________________________________________________________

______________________________________________________________________________

______________________________________________________________________________

e  Are you able to provide this product/service?

______________________________________________________________________________

______________________________________________________________________________

______________________________________________________________________________
Could you ask some others to join with you to provide this product/service?

Good job! As you reflect on the answers to these questions, you will be able to identify potential business opportunities in your own community. Perhaps there is a product that could be introduced in the market or a service that is needed. Perhaps there is something that you are good at, like baking, or embroidering, or painting, or speaking other languages, that can also guide you in the type of business you can set up. The trick is to make sure there is a need for the product or service in your local economy, which you can turn into a business opportunity.

You may also sit with your friends and/or relatives and discuss the idea of starting a business. Your share your ideas and hear their ideas. This is called brainstorming.

As opportunities for your business idea clearly develop in your head, it is time to start thinking about who your competitions may be and about creating a plan for your business. Let’s start with looking at your competition.

Identifying the Competition

Competition may be defined as a business relation in which two or more parties compete to gain customers and, consequently, a larger share of the marketplace.

Consumers will buy goods and services from those who provide the most value for the money and/or from those who offer greater buying convenience. Hence, competition tends to drive entrepreneurs to find ways and means of ensuring that customers will choose to buy their product instead of their competitor’s.

Therefore, all entrepreneurs must consider their competition when deciding to start a business regardless of its size. Before you start your business, you must make a special effort to assess the existing competition. In addition, you must make an effort to predict what your competition may be after the business has started and develop strategies to deal with it.

As an entrepreneur, you must identify your competition correctly; select the appropriate competitors to analyse; plan how you will deal with new competitors and develop a strategy to explain your competitive advantages to your clients. This information will be important when
developing the competition section of your business plan, as you will learn further on in this study guide.

Now that you have a business idea, who are your competitors? Carry out a little research project in your community and identify your main competitors in the space provided below.

To find your competitors you can look at directories like the Yellow Pages or a business directory at your local Business Centre, or you may just look around in your community. You may also go to your municipal government and ask for a list of the businesses that are registered with them. Good luck!

In identifying competitors, entrepreneurs often find themselves in a difficult position. On one hand, they want to show that they are unique and identify no or few competitors. However, this has a negative connotation. If no or few businesses are in a marketplace, it implies that there may not be a large enough customer need to support the new business' products and/or services.

After identifying your competitors, you must describe them in your business plan. In doing so, the plan must also objectively analyze each competitor's strengths and weaknesses and the key drivers of competitive differentiation in the marketplace. In other words, your business plan must identify what sets you apart from your competition, as seen by your potential customers.

To analyse your competitors' strengths and weaknesses you will begin to use a rather common tool used by many business persons. It is called a **SWOT Analysis**.
What is a SWOT Analysis?

SWOT analysis is a tool for analysing a business and its environment. It is the first stage of planning and helps marketers and new entrepreneurs to focus on key issues. The acronym SWOT stands for Strengths, Weaknesses, Opportunities, and Threats.

- **S** - Strengths
- **W** - Weaknesses
- **O** - Opportunities
- **T** - Threats

Strengths and weaknesses are **internal factors**. Opportunities and threats are external factors. Let's look at a few examples within the context of analysing your competitors. For example:

**A strength** could be:
- Specialist marketing expertise
- New, innovative products or services
- Location of business
- Any other aspect of their businesses that adds value to their products or services

**A weakness** could be:
- Lack of marketing expertise
- Undifferentiated products or services (i.e. in relation to your business)
- Location of their businesses
- Poor quality goods or services
- Damaged reputations

In SWOT, opportunities and threats are **external factors**. For example:

**An opportunity** could be:
- A developing market such as the Internet
- Mergers, joint ventures or strategic alliances
Starting Your Own Business: A Self-Study Guide

- Moving into new market segments that offer improved profits
- A new international market
- A market vacated by an ineffective competitor

A threat could be:
- A new competitor in your home market
- Price wars among competitors
- A competitor has a new, innovative product or service
- Competitors have superior access to channels of distribution
- Taxation (such as VAT) is introduced on your product or service

You can apply the SWOT analysis methodology to your business or your competitors' businesses as you try to assess the position of any of these organisations.

Now try to do a SWOT analysis of your business idea.

Identify at least three strengths and weaknesses of the business you want to start up and the opportunities and threats that it faces.

**Activity**

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Were you able to identify the Strengths, Weaknesses, Opportunities and Threats that may impact your start-up business? Good job! If you have the chance, show the results of your work to your tutor, or discuss them with friends or even people at the local Business Centre. The more feedback you get on this the better. Any comments will be helpful in
getting you to think carefully about all these issues prior to committing to a business idea.

Make sure you hang on to this information, as it will be needed for the initial sections of your business plan!

Now that you have practiced the SWOT methodology, try to use it on one of the competitors you identified in a previous activity. To do so, identify a business that is in operation and that might be a competitor of yours once you establish your own business. Let’s call this Business X.

1. Identify three strengths of X.
2. Identify three weaknesses of X.
3. List three opportunities that X has but is not currently making use of.
4. List three threats to business X that might also effect your business.

Fill in the table below with the information you collected.

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Well done! You should carry out a SWOT analysis for each one of the competitors you identified before. As you did with the previous activity, try to get comments on your own analysis of your competition as well. You will see that other people may have interesting feedback to add and different perspectives. If at all possible, show your work to your tutor and get some feedback as well.

As you did with the previous activity, make sure you keep this information handy, as you will need to include it in your business plan.
Unit summary

In this unit you learned all the things you need to do in preparation to starting up your business and in preparation to putting together your business plan. You looked at legal requirements that you must be familiar with in order to start your business and you explored your local market to identify potential business opportunities. You assessed the strengths and weaknesses of your own business idea and those of your competitors.

You are making good progress in your studies. We hope you are enjoying your preparation to start your own business. To complete the study of this unit, do the following assignment:

Assignment

a  Do a SWOT analysis of the main competitors you identified earlier in this unit, and write up a summary of the results
b  Write up a summary of the result of the SWOT analysis you carried out for your own business idea.
c  Write a couple of paragraphs that explore how your business idea can fit in the local marketplace, taking into account the strengths and weaknesses of your competitors.

When you finish your assignment, make sure you show it to your tutor to get some feedback.
Unit 4

Analysing Your 
Marketplace

Introduction

In the last Unit, you learned about the legal requirements for starting your own business and you engaged in preliminary exploration of your local market, by conducting SWOT analysis of some of your competitors.

In Unit 4, you are going to explore your marketplace a bit further. You are going to look at the forces of supply and demand and how they shape the marketplace. You will reflect on ‘needs’ and ‘wants’ and you will learn about market segmentation. You will also learn about market positioning and some strategies you can use to position your product or service in order to meet your target sales.

In this unit you will work on a few activities that have been designed to assist you with the planning stages for the creation of your business plan. Make sure you resolve all activities and that you keep notes in your learning journal. Your learning journal notes will be really helpful when you start working on your business plan.

Upon completion of this unit you will be able to:

- Determine the supply and demand for your product and/or service.
- Establish the target market for your business.
- Position your product or service in your local marketplace.

Outcomes

Supply and Demand

Supply and demand are the two most fundamental concepts of economics and form the backbone of a market economy, which is an economic system in which economic decisions and the pricing of goods and services are guided solely by the laws of supply and demand, with little government intervention. This is the opposite of a centrally planned economy, in which governments intervene in most aspects of the country's economic activity.
Market economies work on the assumption that market forces, such as supply and demand, best determine what is right for a nation's economic well-being. Governments rarely engage in economic intervention, such as price fixing, license quotas and industry subsidies.

**Supply**

Supply represents how much of a product or service a market can offer. It is a fundamental economic concept that describes the total amount of a specific good or service that is available to consumers.

Supply is the quantity that producers are willing to sell at a given price.

A potato grower may be willing to sell one hundred pounds (lbs) of potatoes if the price is $0.75 per lb and substantially more if the market price is $0.90 per lb.

**Example**

The main factors which determine supply are:

- the market price of the product or service
- the cost of producing it

**Market price** is the current or existing price that suppliers are asking and customers are willing to pay for a product or service.

It is important that you determine the current market price of the product or service you intend to supply. To do this you must investigate your market. You may use the telephone directory, the Internet or visit suppliers in your area to determine how many other persons/companies are supplying the product or service you intend to supply and how much they are charging for it. As you carry out your investigation, make sure you find answers the following questions:

- Are they supplying enough to meet the needs of the market?
- Are there always shortages?
- What part of the market is usually left without?
- What are their prices?

Make sure you keep the information you gather in your investigation because later on, when you calculate the cost at which you can produce your product or service, you will be able to determine if you can better the price asked for by the other suppliers - your competitors. In other words, you will be able to determine whether or not you can supply your
product at a competitive price in the required quantities. If you can, then that may be your niche - your target market!

**Demand**

*Demand* is an economic principle that describes consumers’ desire and willingness to pay a price for a specific good or service. The quantity demanded is the amount of a product or service people are willing to buy at a certain price. Usually, the price of a good or service increases as its demand increases and vice versa.

*Demand* is the quantity of a good that consumers are not only willing to purchase but also have the capacity to buy at the given price per unit.

A consumer may be willing to purchase 2 lb of potatoes if the price is $0.75 per lb. However, the same consumer may be willing to purchase only 1 lb if the price is $1.00 per lb.

**Example**

Think of demand as your willingness to go out and buy a certain product.

*Market demand* is the total of what everybody in the market wants. Businesses often spend a considerable amount of time and money to determine the amount of demand that the public has for their products and services. Incorrect estimations will either result in increased profits, if it’s underestimated, or losses, if it’s overestimated.

Now that you have an idea of the economic concepts of supply and demand and how they work in a market economy, think about the product or service you want to offer through your enterprise and try to answer the following questions:

a  Do you think there is demand for your product or service? Why?
b Do you think customers will purchase your product/service?


c And how much do you think they will be willing to pay for that product/service:

- i More than your competitors’ price?
- ii The same as your competitors’ price?
- iii Less than your competitors’ price?

Well done! Perhaps you can talk to your family and friends about your idea for a product and get their opinions in terms of demand and potential price.

So, after thinking a bit about supply and demand, and after talking to a few people in your community about your idea for a product or service, do you think you will be able to price it competitively?

Reflection

The Market

After establishing the type of competition you are likely to face in your business, as well as the supply and demand for the product or service you are going to offer, it is essential to focus on the market.
So, what do you think a “market” is?

You could have given many definitions. You could have said that a market is a place where one can buy and sell products, or you could have said that a market is a place where one can trade goods. There are many ways of describing a market and markets exist in many traditional ways, such as farmers’ markets, flea markets, handicraft markets, etc.

What is the meaning of a market?

The concepts of buying and selling lead to the concept of ‘market’. Basically, ‘market’ is a concept that encompasses all the sellers and buyers of a product or service, who influence its pricing through the mechanisms of supply and demand, as you have already learned. Buyers share a particular need or want that can be satisfied through an exchange with the sellers. This exchange is called a transaction, and it can be an exchange of a product or service by another product or service, or it can be an exchange of currency (money) for a product or service.

What do you understand by 'needs' and 'wants'? Let's examine them briefly.

Human needs are states of felt deprivation. They include physical needs for food, clothing, warmth, and safety; as well as social needs for belonging and affection. Wants, on the other hand, are the form human needs take as they are shaped by culture and individual personality e.g. rich people will purchase expensive cars to match their status. The size of the market depends on the number of people who exhibit the need, have resources to engage in exchange, and are willing to exchange these resources for what they want.

Originally, the term 'market' stood for the place where buyers and sellers met to exchange their goods, such as a village square.
In economics, **market** is any structure that enables buyers and sellers to exchange products, services and information.

Economists use the term 'market' to refer to a collection of buyers and sellers who transact in a particular product class as in the cattle or grain market. Marketers, however, see the sellers as constituting an industry, and the buyers constituting the market (Kotler and Armstrong, 2004).

Marketers are keenly interested in markets. Each nation's economy and the whole world economy consist of complex, interacting sets of markets that are linked through exchange processes.

**Activity**

**a** Do you think a good understanding of what ‘market’ is can help you in the planning stages of your business? Why?

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________


**b** How is ‘market’ defined in business terms in your country?

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

Compare your answers with your peers’. Do you agree that understanding the concept of ‘market’ will help you better plan for your business?
Market Segments

When you are planning your business, it is important to establish your target market and define your market segment.

A **target market** is a group of consumers that may have a need or want for your product or service.

A **market segment** is a smaller group of consumers within your target market that exhibit similar characteristics, such as members of the same age group, and that have demonstrated a need or want for your product or service.

The idea of a market segment arises from the fact that not only is it impossible for you to supply your product to everyone in the market; but not every consumer in the market will have a need for your product. Segmentation simply means dividing a market into smaller groups of buyers with distinct needs, characteristics, or behaviours who might require specific products. These are the groups you will be selling to. They are your specific target market!

**Market segmentation** is the process of classifying a market into distinct subsets (segments) that behave in similar ways or have similar needs.

Generally market segmentation is based on demographic, geographic, attitudinal or behavioral information. When a market segment is fairly homogeneous in its characteristics, i.e., same age group, same gender, same socio-economic status, etc., it is likely to respond similarly to a marketing strategy. This means that consumers within that group are more likely to respond to your marketing and advertising efforts and will be more likely to purchase your product or service.

The purpose for segmenting a market is to allow your marketing and sales efforts to focus on the subset of prospects that are "most likely" to purchase your product or service. It will help to obtain the highest return for your marketing and sales expenditures.

If you have access to the Internet, you may read a bit more about market segmentation and marketing for the small business at the following links:

http://marketing.about.com/cs/sbmarketing/a/smbizmrktseg.htm

http://marketing.about.com/od/marketingbasics/a/smmktgbasics.htm

If you don’t have access to the Internet, you may find the articles
*Marketing Segmentation for the Small Business* and *Marketing Basics for the
Most likely you already have an idea of whom you want to sell your product or service to. This may be based on the characteristics of your product or service and on your pre-determined idea of what your market could be. The following questions will assist you in further defining your market in a more objective and systematic manner:

a Where will there be more need for your product or service: in a rural or urban environment?

b Within the urban or rural environment you identified in the previous question, can you identify the specific geographical locations where you think there is a need for your offerings and where you can realistically sell your product or service? List them below:

c What gender is more likely to have a need or want for your product within those geographical locations?

d Within the gender characteristics identified in the previous question, what age group is more likely to have a need or want for your product? (20-35 years; 35-50 years; 50-60 years, etc.)
What socio-economic stratification will have a need for your product or service?

Can you guess how large your market segment could be? Will it be large enough to sustain the offering of your product or service?

Well done! After you reflect a bit on your answers, you will have a good idea of the key characteristics of your market segment. Of course, you may think of a few other questions you may want to ask yourself… so go for it. The more information you get on your market segment the better marketing strategies you can develop to target the consumers that have a need for your product or service, and the better your sales results will be!

As you answer these questions, you may also reflect on the type of product or service you are thinking of offering and if need be, you may need to make adjustments according to the information you have on the market segment.

Example

If you were thinking of selling casual clothing for young student women between 18 and 30 years of age but you notice that your market segment is composed of older working women, then you may think of changing your product to specialize in more formal business clothing.

By going after market segments instead of the whole market, entrepreneurs have a much better chance to deliver value to their customers, and to receive maximum rewards for close attention to consumer needs.

Within a given market segment, you can easily establish the buying power, motivations for buying, and peak periods for operating the business.
Reflect on market segmentation and on what other benefits you think may accrue from it. Can you identify a few market segments in your own community, where you intent to set up your business? How do you think this is going to influence your business plan?

Share with colleagues or people already in business the results of your reflection!

**Market Positioning**

The term 'market positioning' is probably not new to you.

In the space provided, suggest your view about the meaning of ‘market positioning’:

---

**Activity**

Good job! **Market positioning** is a marketing strategy commonly used to create an image or identity of a product or service in the minds of consumers. It is a strategy that is often used in competitive positioning, as entrepreneurs position their products or services more and more in comparison with their competitors, to establish a competitive advantage. The goal is for you to develop strategies that will ensure that your product will occupy a clear and distinctive place in the minds of your target market, relative to your competitors.

A product's position is how potential buyers see the product, and is expressed relative to the position of competitors.
Market positioning is an important aspect of planning for your business, and you can position your product on the basis of **four main strategies**:

1. **more-for-more**,  
2. **same-for-less**,  
3. **less-for-much-less**, and  
4. **more-for-less**

These positioning strategies are explained briefly below. As you read them, try and figure out which would work best for you.

**More-for-more positioning** involves providing the most upscale product or service in comparison to your competition, and charging a higher price to cover the higher costs of production. Not only does this positioning offer high quality, it also offers prestige to the buyer.

**Same-for-less positioning** offers the same quality product for a lower price. Some businesses develop imitative but lower-priced brands in an effort to lure customers from an existing market leader.

**Less-for-much-less positioning** offers cheap products that cost less. This is because a market always exists for products that offer less and, therefore, cost less. Few people need, want, or can afford the very best in everything they buy.

**More-for-less positioning** is the concept of offering better products at a much lower price than the competition. However, research has shown that offering more usually also costs more, making it difficult to deliver on the “for-less” promise.

Market positioning will affect the planning for any enterprise. Find out what entrepreneurs in your community think about each one of the market positioning strategies you have studied. Which one do you think will be more applicable to your business? Make notes in your learning journal. You will find your notes helpful as you put together your business plan later on in this course.

As you learn to analyse your local marketplace, you will start to consider the capital needs for your business idea. Aspects of financing will be the focus of the next unit. Keep up the good work!
In this unit you learned how to analyse your local market, as you plan for your small business. You assessed the supply and demand for your product and/or service and you investigated your local market to establish your market segment. You reflected on market positioning and considered a few strategies to assist you in positioning your product and/or service.

Identifying the supply and demand for what you are trying to offer, as well as determining the market segment to which you will market your product or service will contribute to your success as an entrepreneur. Proper positioning of your product or service will go a long way to ensuring the success of your small enterprise.
Unit 5

Funding Your Business

Introduction

In the last Unit, you learned how the forces of supply and demand shape the marketplace and how that can impact your business. You explored issues around market positioning and looked at a few strategies that you may use to position your product or service to reach your target sales.

As you analyse your local marketplace, you will start to consider the capital needs for your business idea. Aspects of financing for your business will be the focus of this unit. You will learn to assess how much financial support will be required in the short term as well as in the long term. As you engage in this reflection you will be able to start piecing together a business plan that will guide your operations towards achieving your business goals.

Upon completion of this unit you will be able to:

- **Determine** the initial capital requirements and financial needs to set up your enterprise.
- **Determine** the short and long term capital needs of your enterprise.
- **Outline** the steps involved in preparing a business plan.
- **Discuss** the elements of a business plan and their importance for successful business practices.

Funding Your Business

At this point you have a pretty good idea of what your business venture will be: you know what product or service you are going to offer, you have assessed supply and demand in your local marketplace, you have identified your competition and carried out SWOT analysis to identify your own strengths and weaknesses as well as those of your key competitors. So, you are pretty much ready to go…. However, you may not have the funds required to start your new venture. Well, there are alternatives that you can explore in order to obtain funding.
Before you look at available options for funding for your business, there are some questions you may need to ask yourself about the amount of money required to start your business:

1. How much capital/funds will I need?
2. What type of capital/funding will I need?
3. Where can I get these funds?

Your Capital Needs

Each stage of your company's life will require specific financial needs.

At the planning stage you may need funding to do initial research, to carry out marketing analysis, etc.

The start-up stage is often times the most difficult for an entrepreneur in terms of financial needs. You may need capital to allow you to rent a space, purchase equipment necessary for you to start conducting your business, etc.

And sometimes, you may need capital to get you through a business expansion.

In any event, it is important that you are able to estimate the financial needs for your enterprise, especially for the first year of operation.

As you think about your business, think about what your expense items will be. Where will your money go in the first year of operation? Make a list in the space provided below, and estimate the monthly amount you may need. Then it is easy to multiply it by 12 to get the annual needs for your business! (Examples: phone bill, rent, supplies, utilities, payroll, taxes, marketing and advertising costs, etc.)
Good job! You may want to share your list with friends and family or with other business owners that you may know in your community to get some feedback. You will find that they will make you think about each item and they may even surprise you with something you had not thought about!

You may have found that some of the initial capital needs for your business may include:

- Rent
- Utilities (electricity, water, telephone, Internet access)
- Wages (yourself and employees)
- Equipment and supplies (could include a printer, paper and toner if your business needs an office, or an oven, flour and oil if you’re starting up a baking home-based business, etc.)
- Furniture
- Taxes

This list may be very different depending on the business type and size. If you are starting a taxi business you list may include items such as a car, fuel and maintenance (mechanic). The important thing is that you think about your expenses in advance, itemize them and review them and allow enough money for the true expenses associated with running your business for the first year of operation. (And don't forget to pay yourself first!) Did you plan for an increase in staff or an increase in production? One of the top reasons many new businesses fail is because they don't get enough start-up capital. (The other reason is poor management.) Realistically estimate your financial needs and leave room for the unexpected.

**Operating costs**

Once your business is set up, you will require a certain amount of money to operate it on a daily, weekly or monthly basis. Therefore, it is important that you try to estimate these operating costs in advance, so that you can estimate your cash flow. The goal is for you to at least break even in the first year of operation, which means that your revenues should cover your costs, including your own wage. However, that is not always the case and you may have to rely on financing for the first year of operation. Regardless, it is important that you estimate your operating costs, as well as your own personal expense requirements for the first year, as that will give you an idea of the amount you need to borrow, if any.
Think past the initial establishment of the business to ascertain these expenses. You may go ahead and create your own expense list or you may use the forms below as a guideline. Feel free to adapt them to your needs and the needs of your business. Let’s start with your personal expense requirements:

### Activity

**Personal Living Expense Requirements**

My living expense requirements per week/month are:

<table>
<thead>
<tr>
<th>Item</th>
<th>Weekly/monthly amount $</th>
<th>Annual amount $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent/mortgage</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clothing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telephone</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Entertainment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Motor vehicle</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Travel</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

So, now you have an idea of how much you will need for yourself on a monthly basis. This could be a good way to establish how much you need to pay yourself as you start up your own business. Let’s look at how much it will cost to operate your business:
Starting Your Own Business

A Self-Study Guide

Business Operating Costs

The costs associated with operating my business are:

<table>
<thead>
<tr>
<th>Item</th>
<th>Weekly/monthly amount $</th>
<th>Annual amount $</th>
<th>When due</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telephone</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Licences</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Motor vehicle (running)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&quot; &quot; (maintenance)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advertising</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repairs &amp; maintenance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Printing/stationery/postage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Travel</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total:                          |                         |                 |         |

Well done! Now you have a good idea of how much you will need monthly and annually to be able to operate your business, which means that you also know how much revenue you must generate! In previous modules, you gave some thought to the potential sales for your product or service. Do you think you will be able to generate enough revenue? If not, you may consider funding alternatives to cover not only your start-up costs but also your operation costs, at least for the first year of operation.
Funding Options

Now that you have a better sense of how much capital you are going to need, it is time to think about funding your small business idea. Several funding options may be available to you, including:

- Seed financing (funding out of your own pocket)
- Family funding (funding from relatives and friends)
- Bank loans (and other financial institutions)
- Venture capital
- Sale of capital stock
- Grants (from government and non-government organisations)
- Corporate partnerships

When exploring your funding options, there are several factors to consider:

- Are your needs short-term or long-term? If you borrow money, how quickly will you be able to pay back the loan or provide return on the investors’ investment?
- Is the money for operating expenses or for capital expenditures that will become assets, such as equipment or property?
- Do you need all the money now or in smaller pieces over several months?
- Are you willing to assume all the risk if your small business doesn't succeed, or do you want someone to share the risk?

The answers to these questions will help you prioritize the many funding options available. Let’s have a look at a few funding options.

Seed Financing

When you resort to see financing, it means that you you’re your business idea from your own pockets, usually with a relatively small amount of personal funds. This may include money saved from other forms of income you may have. This funding option is often referred to as ownership capital/owners equity funding.

Seed financing is probably the easiest form of money to obtain, since you will be the only person taking the risk. It also means that you can probably expect to receive the greatest reward when your investment pays off. The problem is that you have to have other sources of income, such as working another job, while growing your own small business.
Examples of seed financing may include: your assets, savings, an equity loan on your house, credit cards, and secondary income.

**Family Funding**

Relatives and friends may agree to give or lend you money to start your business venture. They are typically less stringent regarding your credit history and they may have lower expectations regarding their return on that investment. However, you are more likely to regret the transaction should your business fail. It is important that you carefully choose the ones whom you can ask for start up money. They may recall their funds at times when the business is least able to return them, or they may demand a greater or additional involvement in the venture which was not a part of your plan. There needs to be a lot of trust and perhaps a lot of ability to forgive.

**Partnerships**

When taking advantage of family funding to fund your business it is advisable that you structure the deal with the same legal scrutiny you would with anyone else or it may create problems down the road when you look for additional financing. Prepare a business plan and formal documents: it will make both you and your family member or friend feel better and it's good practice for later.

There should be a written agreement between the partners listing duties, responsibilities, amount of capital one has to contribute and also the proportion of profit sharing. This will help if differences should arise regarding who should do what and who should get what out of the business.

You can see a couple of samples of Partnership Agreements in Appendix A. Have a look at how they are structured and how you could adapt them to your own business. Remember, it is always safer to use a legal professional to draft up these agreements.

**Bank Loans**

Bank loans are usually offered by commercial banks and other financial institutions. They can be a main source of financing, not only to business entrepreneurs, but also to the community at large for whatever purpose intended.

Bank loans come in all shapes and sizes, from microloans, typically offered by local community banks, to six-figure loans usually offered by major national banks. Large loans are much easier to obtain when backed by assets (e.g., home equity) or third-party guarantors (using a co-signer).
If you obtain a line of credit rather than a fixed-amount loan, you don’t start paying interest until you actually spend the money.

Loans are offered at different rates of interest. It is important that in your financial planning you take into account the interest rate and repayment schedule. You must decide the repayment intervals and how much you will be able to pay at each interval. That is how often will you be able to make a payment on your loan and how much (e.g., will you pay weekly, monthly, quarterly?).

**Venture capital**

Venture capital funds are invested in new or higher risk enterprises, by outside investors. Venture capital investments usually are high risk investments; however, they offer the potential of very high returns. The new entrepreneur seeking venture capital investors have the option of seeking the support of others who have had the experience of using venture capital. This person does not only have the experience in acquiring/finding venture capital; but, can also provide the new entrepreneur with support and direction concerning starting up.

**Sale of Capital Stock**

You may sell some of the capital stock of your business in exchange for funds needed to operate the business. You may sell these shares to an individual, though a private sale, or on the open market, in which case the shares will then be purchased by interested parties or individuals. The sale of capital stock provides you with immediate funding. The parties/individuals buying the shares become shareholders and must be assured of some returns on the money they have invested into that business venture.

**Grants**

Grants are made available through governments and through non-governmental organisations (NGOs). Governments and NGOs aim to support small business development with a focus on innovation. Therefore, often times you will see grant money available for innovative start-up small businesses. This is a great source of funding, as it is “free money”; however, grants tend to be very competitive and closely define how the money is supposed to get spent.

**Corporate partnerships**

Forming a partnership with an existing corporation may also be an option to fund your small business. However, you may have to be prepared to relinquish a certain level of control from your own business. By investing in small businesses, large companies can keep up with fast-paced developments and innovation typical of small enterprises. This investment technique is referred to as windowing in on recent entrepreneurial developments.
Advantages

The advantages of partnering with a larger company to fund your business include:

- Heightened credibility with customers and bankers;
- Expert managerial assistance;
- Continuing source of financing;
- Small burden of risk.

Disadvantages

The disadvantages of these partnerships include:

- Loss of substantial equity;
- Investors tend to make most of the decisions;
- Risk of takeover.

There are many channels available to you to raise capital. All of the approaches we presented may have numerous variations. The important thing is that you put together a solid business plan, talk to a financial adviser, and just start asking!

The Business Plan

The business plan is a written document that describes the enterprise, its objectives and the steps necessary to achieve them. It is a road map of the future direction of the business. It outlines how the business will be operated and where the business is heading. It includes strategies aimed at reaching the business’ goals, as well as guidelines for how to do it. Business plans also specify what is required to meet the goals and a timeline for when those goals should be met. Studies show that businesses that develop and use plans increase their chances of survival. So much so that many banks now require anyone applying for a business loan to submit a business plan.

Many business operators have trouble planning because they see the business plan as a mysterious, theoretical document. There is nothing mysterious about planning. It is simply deciding in advance where your business is going and working out the details of how you will get there.

The main benefits of planning your business are:

- it sets out a clear path to your goals
• it allows you to anticipate future strengths, weaknesses, opportunities, and threats
• it keeps you on track towards your goals and helps you not to get sidetracked
• it is a sign of your commitment
• it is a useful tool for communicating with bankers, other lenders, suppliers and customers
• it shows you and others that you know your business

Steps to writing a business plan

Writing a business plan may seem like an overwhelming task. Let’s look at a series of steps to guide your work and make the task an easier one:

1. Identify your audience and the type of funding you will need
2. Draft an outline for your business plan
3. Research and collect information you will need to substantiate your plan
4. Gather information collected in a central point
5. Carry out an industry overview
6. Analyse your data
7. Prepare preliminary financial information
8. Draft an executive summary
9. Review and edit your work

As you see, this list includes many items that you have already thought of… You have done some preliminary research and collected some information about your market, you have done a SWOT analysis about your market and about your own business idea, and you have thought out some financial information, so you are well underway! Let’s have a quick look at each one of these steps.

Audience and Funding Type

First, you must determine who will be reading your business plan. Will it be a financial institution? Will it be a family member? Knowing who your audience is will shape how you present the information in your business plan.
Writing a business plan for a financial institution will most likely be 10-15 pages focused on the bank's concern with risk and your ability to pay the loan.

Writing a business plan for a family member will most likely focus on the figures and facts that support your own assumptions of the marketplace. Of course, risk and repayment are a concern, but the focus of your plan will most likely be on “convincing” the reader that your idea is viable.

**Business Plan Outline**

This is the second most important starting point once you've predetermined your audience. We will look at sample outlines in the next section.

**Research and Information Collection**

Any ideas should be researched in advance, and a business idea is no different. Business plan research covers several key areas:

- **Insight from your experience working and observing the industry you will enter.**
- **Published information from library, Internet, etc. will support your insight and provide information on the market growth, overall industry perspective, and customer profiles.**
- **Field research covers interviews with customers, suppliers, competitors, and industry experts. This further supports your insight and whether or not the published information is valid for your local setting.**

**Keeping Information**

It is important that you keep all your information in one place. This can be a collection of paper files filed at home, or electronic files, organised and stored in a computer. Whichever process you use, the important thing is that they are organised and kept together so that you can quickly access them as you write your plan.

**General Industry Overview**

The research process should include an overview of the industry, in your country and in your area. By having a general understanding of the industry, you will gain a good understanding of the industry fundamentals and will be prepared to seek answers to relevant questions. Performing SWOT analysis is a good way to gather some of this information.

**Data Analysis**

Once the bulk of the data has been collected, it is time to make sense of all the information. Start by drafting up your conclusions based on the data. For example, you found that there was only one bakery business in
your area, without capacity to serve the local market. If your business idea is to start up a bakery in your town, then it may be very well worth pursuing.

Financials

Make sure you collect as much financial information as possible, including some average industry ratios. If you have access to an accountant, work with them to develop realistic estimations. Being overly optimistic will raise eyebrows with your investors or banker.

Executive Summary

Save the first section for last. Writing the executive summary should be your last task in writing a business plan. Make sure to succinctly highlight the key points and include the return on investment or loan payback requirements, especially if you are looking for the support of a financial institution to fund your business.

Review & Editing

Remember, you only have one shot at making a good impression. Therefore, it is extremely important that your business plan is well-written. Make sure that your document has been revised and reviewed. Ask others for feedback and make sure to edit and proofread as many times as necessary.

Elements of a Business Plan

1. A thorough explanation of the product or service that the business will provide;
2. Why this product/service will satisfy customer needs;
3. Why this business will be successful;
4. The potential revenue, expenses and profits;
5. The possible expansion of the business in the future.

Business Plan Outline

There is no single business plan outline. Depending on your business, your outline will include specific sections that address areas to focus on within your industry. However, there are a few sections that are common to all business plan outlines, such as the Executive Summary, the Market Analysis, and the Financial Information. The following is a suggested outline:

- Executive Summary
- Company Description
Starting Your Own Business A Self-Study Guide

- Market Analysis
- Strategy Formulation
- Impact of Technology
- Business Operations
- Management and Ownership
- Organisation and Personnel
- Capital and Usage
- Financial Information
- Appendices

Executive Summary

In this section you should provide an overview of the most important selling points of your business idea. Keep it succinct and to the point: a good way to think about it is this may be the only part of the whole plan that gets read, so it should sell your business.

Company Description

Cover the basics of your business in this section. Elaborate on what industry and what products/services your business will provide. It should also cover what makes your business stand out from the competition and how you will be successful. Don’t forget to include the legal form of business: sole proprietorship, partnership, corporation, etc.; the business hours and the seasonability of the business, if appropriate. You may also include the location of your planned business. Sometimes location of the business may be the key to its success.

Market Analysis

This is where you prove that you have researched your market. You should explain about the industry, including target markets. Explain your competition and compare your business idea to them. Explain your marketing strategies and plans, including how you will deliver your goods or services to your target market. Here are a few tips:

- **Target Market**: the percentage of the total market to whom the enterprise plans to sell its product or services.

- Success will depend upon how, for example the product will be priced and how the business deals with the **competition**.
Price and product differentiation from the competition play an important role in the firm's profitability.

**Strategy Formulation**

In this section, detail the strategy you will follow to attain your business goals. Go over what you want to do, where you want to go and how you will get there. Explain how you are planning to attain your goals in the most efficient manner at the lowest cost.

**Impact of Technology**

Provide an overview of the technology you will use, if any, and how new developments in technology may or may not affect your business.

**Business Operations**

In this section, explain how you will conduct your business. Focus on what makes you better than the competition as far as operations.

**Management and Ownership**

This is where you should outline the key personnel that will be part of your business. Explain their skills, education and what they bring to the company.

**Organization and Personnel**

Provide an explanation of your personnel needs in this section. State how many employees you will need, how much you will pay them and how they will be paid. Also explain the personnel organizational structure. Make sure you go over the process for personnel recruiting, selection, evaluation and training.

**Capital and Usage**

In this section you must detail what capital you will need, if only for start-up or for operations, for how long and re-payment strategies. Start with how much you will need to start followed by a realistic projection of needs. Include all sources as well as the applications of cash within the enterprise, highlighting how that cash will be utilised.

**Financial Information**

In this section you make projections for future gains and losses. You should list them quarterly until the business breaks even then annual reports are fine, if you are submitting a plan for a few years. Make sure you include the following items in this section:

- **Recording:** State how you plan to carry out the systematic recording of the enterprise’s income and expenditures, assets, liabilities and
owner’s equity, in order to determine its financial performance and financial position.

- **Breakeven analysis**: the volume of sales sufficient to cover all fixed and variable costs. It is the point where revenues equal costs.

- **Capital Equipment list**: A statement that includes the details of the required operating equipment and its corresponding dollar value.

- **Cash Flow Statements**: Show the inflow of dollar from receipts into the business, and the outflow in the form of expenditures made by the business. Use your estimated figures for revenue and expenditures.

If your funding options include a request for funding that will span over the course of a couple of year of operation, then you may want to include more in depth financial information, based on realistic projections, such as:

- **Balance Sheet**: It shows at a point in time the firm's position with regards to assets, liabilities and net worth, or owners’ equities.

- **Income Statement (Statement of Financial Performance)**: It shows all the revenues and expenses over a specific time period, which result in the profit or loss from those transactions and cash flow statements.

**Appendices**

Make sure you include all documents you used to substantiate your business idea here. Include resumes, references, SWOT analysis, competitive analysis, copies of studies done or anything else to back up information in the business plan.

Appendix A includes a couple of business plans templates, which you may explore and adapt according to your needs.

**Example**

Now take some time to create an outline for your business plan. Focus only on the headings you would like to include and make a list of topics you want to cover under each heading. Once you are done, share your outline with friends and family, or even a business person in your community. Collect their feedback and edit your outline accordingly. You will be able to use this outline to create your final assignment in this course – to develop your draft business plan.
Here is a list of some resources available on the Internet:

- How to write a business plan: http://www.work911.com/cgi-bin/planning/jump.cgi?ID=6706
- Free Business Plans: http://www.bplans.com
- Samples of business plans: http://www.myownbusiness.org/s2/#6
- Coffee shop and Internet Café business plan samples: http://www.bplans.com/coffee_shop_and_internet_cafe_business_plan_templates.cfm

Summary

Well done! You have now completed the last unit in this course. Congratulations! Here is a summary of the areas that you have worked with in the unit:

1. You have discussed the rules and regulations regarding:
   a. starting a business in your area
   b. naming a business
   c. trademarks, service marks, copyright etc

2. You can now identify:
   a. your competitors
   b. your target market
   c. the source of funding and the amount needed to your business

3. You have started your business plan

4. You have decided on the type of business you will start.
Assignment

Using the outline you did in the last activity in this unit, fill in each section to create your draft business plan.

Your business plan should be between 10 and 15 pages in length and must cover all the areas that you studied in this unit.

Make sure you use all the information you produced as part of this course in the development of your business plan, such as the financial projections and the SWOT and competitive analysis.

When you finish your assignment, make sure you show it to your tutor to get some feedback. Good luck!
Unit 6

The Marketing Plan

Introduction

In the last Unit, you learned how to develop a business plan for your business idea. You looked at options for financing your business and included them in your business plan. You also learned that the planning for your business should include a marketing plan, driven by the overarching direction set out in the business plan.

In this Unit, you are going to look at the nature of a marketing plan and why it is important for your business. You will consider the three questions a marketing plan seeks to answer:

1. Where have we been?
2. Where do we want to go?
3. How are we going to get there?

As you analyse the characteristics of a marketing plan, you will spend some time studying the steps involved in preparing a marketing plan.

Upon completion of this unit you will be able to:

- **Discuss** the nature of a marketing plan.
- **Describe** some characteristics of a marketing plan.
- **Outline** the steps involved in developing a marketing plan.

Before we get into the study of marketing plans, let’s review a few concepts that you learned in Unit 4.

- **Demand** happens when a person or a group of persons show a need for your product/service. If they show a willingness to pay for it, then they become your **customers**.
- The number of customers in the community represents the **market** for a product/service.
- The business people who provide similar product/service are known as **competitors**.
The Nature of the Marketing Plan

A marketing plan outlines the specific actions you intend to carry out to interest potential clients in your product or service and how you plan to persuade them to buy the product or services you will offer.

A sound marketing plan is the key to the success of our business. It should include:

- Sound and specific market research.
- Location of the business.
- Target customer groups.
- Who the competition is.
- Market positioning.
- Description of the products or services you want to provide.
- The pricing structure for the product or service.
- Advertising plan and strategies.
- Promotion strategies.

Before you start your business, it is important to draft up a marketing plan that will provide some direction as to how you will market your products or services. Once your business is established, you should plan to revise your marketing plan annually.

The marketing plan should focus on decisions related to the marketing variables which may affect your products, your pricing structure, the location of the business and how you will carry out promotion strategies. The process of developing your marketing plan should include an initial stage to conduct market research. As you have learned in previous units, market research is the process by which you collect information that will assist you in the development of your marketing plan. This information can be generated from both secondary and primary sources. You may contact sources of information directly, by conducting interviews, or indirectly, by accessing existing marketing information reports, for example.

Environmental Scanning

In addition to conducting marketing research, it is also important for an enterprise to do an environmental analysis, also known as environmental scan. Wikipedia defines environmental scan as:
a process of gathering, analyzing, and dispensing information for tactical or strategic purposes. The environmental scanning process entails obtaining both factual and subjective information on the business environments in which a company is operating or considering entering.

Whether you are planning a trip to the grocery store or the direction of your business, you need to consider the larger external environment.

For example, you want to go grocery shopping in the next town. You'd like to get this done as quickly as possible. So, you turn on the radio to listen to the traffic report. If there's been an accident on the main road, you plan to take an alternate route that will keep you out of the traffic jam. There you go... You've done a limited form of environmental scan.

In terms of organisations and strategic planning, an environmental scan involves considering the external factors that will influence the direction and goals of your business. It includes consideration of both present and future factors that might affect the business, since, of course, you're planning for the future, not just the present.

Basically, an environmental scan provides the entrepreneur with information on what is happening in the market. It entails looking at the following:

- economy
- culture
- technology
- legal issues
- competition
- availability of raw materials

It is also important to study the *internal environmental factors*. These include:

- financial resources
- the management team
- suppliers
- the company's mission statement

The main idea behind the development of a marketing plan is to answer the following questions:
1  **Where have we been?** This includes finding out historical information about the market place, the firm's strengths, weaknesses, opportunities and threats.

2  **Where do we want to go?** This involves setting marketing goals and objectives for the short term.

3  **How do we get there?** This question calls for decisions on specific marketing strategies that will be implemented to achieve the enterprise’s goals.

Now try to answer these same questions in reference to your business idea in your Learning Journal.

**Activity**

**Where have you been? (historical info)**

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

**Where do you want to go? (goals and objectives)**

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________
How do you get to where you want to be? (implementation strategies)

Good job! Hopefully you didn’t find it too difficult to come up with the answers. It means that you are on the right track to start your own business!

Discussion

Now, if you have the chance, discuss your answers with some colleagues, friends, family or even any business owners you may know. It’s always nice to get other people’s perspectives on your own ideas!

Having looked at the nature of a marketing plan, let us look briefly at the characteristics of a marketing plan.

Characteristics of a Marketing Plan

The characteristics of a marketing plan are as follows:

1. It provides a strategy to accomplish the mission statement of the enterprise;
2. It is based on facts and valid assumptions;
3. It provides for the use of existing resources;
4. It describes how an organisation is going to implement the plan;
5. It provides for continuity;
6. It is simple and short;
7. It is flexible;
About the Marketing Plan

The first thing you must do before you get started putting together your marketing plan is to set your marketing objectives. These must be:

- clear;
- measurable; and
- have a stated time frame for achievement

Examples of marketing objectives could be:

- To generate sales of $800.00 during the first year.
- To encourage 100 new persons to try the product in the first six months.

Marketing Strategy

The marketing strategy section of your plan should outline your game plan to achieve your marketing objectives. It is, essentially, the heart of the marketing plan and should include information about the four P's:

- **Product** - your product(s) and services
- **Price** - what you'll charge customers for products and services
- **Promotion** - how you will promote or create awareness of your product in the marketplace
- **Place** (distribution) - how you will bring your product(s) to your customers.

Preparing a Marketing Plan

There are ten steps involved in preparing a marketing plan. These are:

1. Defining the business situation;
2. Defining the target market / opportunities and threats;
3. Considering strengths and weaknesses;
4. Establishing goals and objectives;
5 Defining marketing strategy and action programmes;
6 Co-ordinating of the planning process;
7 Determining responsibility for implementation;
8 Budgeting the marketing plan;
9 Implementing the marketing plan;
10 Monitoring process or marketing actions.

The following sections explore each one of these steps in detail.

**Step 1: Defining the Business Situation**

**Business analysis**

The first step in preparing a marketing plan is to do a situation analysis. A situation analysis basically takes into careful consideration the results of the environmental scan, which you studied earlier on in this unit. If you are planning to expand an existing small business, you should review the past performance of your products and the company at this stage. The situation analysis provides information on the market size, growth rate, suppliers, competitors and the general economic conditions. As you take work on this first step, you will be able to define:

- Your geographic marketing area - neighbourhood, regional or national.
- Your competition.
- How you differ from the competition - what makes you special.
- Your price.
- The competition's promotion methods.
- Your promotion methods.
- Your distribution methods or business location.

**Plan and budget**

As you carry out a situation analysis, it is important that you start to draft an overall plan and an initial budget for your marketing activities. Here are a few things you may want to think about:

- The marketing methods you will use to communicate with your customers.
- The marketing methods that have been most effective to your competitors.
- Possible future marketing methods to attract new customers.
- Percentage of profits you can allocate to your marketing campaign.
- The marketing tools you can use within your budget - newspaper, magazine or Yellow Pages advertising; radio or television advertising; direct mail; tele-marketing; public relations activities such as community involvement, sponsorship or press releases.
- The methods of testing your marketing ideas.
- The methods for measuring results of your marketing campaign.
- One marketing tool you can use immediately to start promoting your products and/or services.

**Step 2: Defining Target Market / Opportunities and Threats**

It is important for you to know who your customers or target market will be. This could be classified into target markets or the entire market. Once you decide what your target market will be, try to break it into segments. As you have learned previously in this course, market segmentation is the process of dividing your customer base into smaller homogeneous groups such as age, sex, income, geographical location, etc. In order to do this, think about:

- How your customers learn about your product or service - advertising - radio, TV, newspapers, direct mail, word of mouth, Yellow Pages, flyers, billboards.
- Patterns or habits of your potential customers - where they shop, what they read, watch, listen to.
- Qualities your customers will value most about your product or service - selection, convenience, service, reliability, availability, and affordability.
- Qualities your customers will like least about your product or service - can they be adjusted to serve your customers better?

**Step 3: Considering Strengths and Weaknesses**

This step in the development of a marketing plan takes into consideration the strengths and weaknesses of your company. You have learned how to do this earlier on in this course.

**Step 4: Establishing Goals and Objectives**

At this stage, it is very important to establish the goals and objectives that you wish to achieve. These goals and objectives will answer the second question of a marketing plan:
Where do we want to go?

These goals should specify the following:

- market share
- profit
- sales
- market penetration
- pricing
- promotion policies

Best practices indicate that it is best to limit the number of goals to between six and eight. It is also worth noting that although the goals should ideally be quantifiable, some may not be.

Step 5: Defining Marketing Strategy and Action Programmes

At this stage, you must ask yourself the question:

How are we going to get there?

To answer this question you must set strategies and action plans. This stage entails designing strategies to address all the four elements of the marketing mix popularly known as the 4Ps of marketing which we referenced above:

- **Product or Services** This first P basically means that you must describe the product or services you’re going to offer. It involves addressing issues about packaging, brand name, warranty, image service, features and style.

- **Pricing** This second P is a reminder that you must come up with a pricing strategy. It is worth noting, however, that determining the price of a product is difficult. You must consider the costs of providing the product, discounts, freight and mark up. A good source for this information would be existing marketing research.

- **Place** The third P emphasises how important it is that you make sure that the product is available for purchase in a convenient place. At this stage, you should consider the type of distribution channel to use, number of intermediaries and the location of the members of the distribution channel. Some enterprises nowadays use direct mail marketing because it is simple and less costly. However, you should evaluate all possible options of distribution.
- **Promotion** The last P reminds you that one of the tasks you have to do is to inform customers about your product. You can use advertising media such as print, radio or television. Some enterprises use magazines and TV.

### Step 6: Coordination of the Planning Process

Another important step in the development of a marketing plan is to coordinate the planning process. You may lack the experience necessary to prepare the plan because you are the only person involved. However, you may seek assistance from other bodies that help small businesses, such as the equivalent to a Small Business Enterprises Unit in the Ministry of Enterprise and Employment.

### Step 7: Determining Responsibility for Implementation

It is important that the marketing plan is implemented effectively so that it meets the goals and objectives of the business. It is therefore important that someone be assigned the responsibility for implementing all the decisions in the marketing plan. That is what you must do at this stage.

### Step 8: Budgeting the Marketing Plan

In order to implement any plan, it is necessary to have a budget. At this stage it is important to consider all the costs involved in the implementation of the actions specified in the marketing plan. This means that you must create a marketing budget. The marketing budget also helps in the preparation of the financial plan for your business.

### Step 9: Implementing the Marketing Plan

At this point, you are ready to implement the plans and strategies set out in the marketing plan, so that it achieves the desired goals and objectives over the period established, usually 1 to 3 years. It is important at this stage to be committed to making adjustments as guided by the marketing environment.

### Step 10: Monitoring Process and Marketing Actions

This is the last step in the development of the marketing plan. It involves checking results versus efforts. The results are measured against the goals and objectives. If you fail to meet some of the goals, you must be flexible and be prepared to make adjustments.
Unit summary

In this unit you explored the nature and characteristics of a marketing plan, and you learned about the 10 steps required to put together an effective marketing plan for a start-up business.

Congratulations! With this sixth unit you conclude the study of this course. Have a look at the assignment we propose, which will guide you through the process of putting together the marketing plan for your enterprise.

After you complete this last assignment, you will have drafted a Business plan and a Marketing plan. You are well prepared to start your voyage into the world of entrepreneurship. Good luck!

Assignment

To complete this assignment, you will create a marketing plan for your business idea in two main steps:

- **Step 1**: Create an outline for your document
- **Step 2**: Write the marketing plan

**Step 1: Create an outline**

Here is a proposed outline to get you started:

1. Executive summary
2. The Business situation
3. The target market
4. SWOT analysis
5. Marketing goals and objectives
6. Marketing strategy
7. Implementation plan
   a. Marketing actions
   b. Timelines
8. Budget
9. Monitoring process

Feel free to adapt this outline according to the specific situation of your business idea. The important thing is that you create an outline before you move on to the next stage: to write up the marketing plan itself.
Step 2: Write your marketing plan

Now that you have created an outline for your document, you are ready to fill in the content under each heading. Don’t forget to review and edit your writing and, ideally, make sure that you get feedback from someone else: a colleague, a friend, another entrepreneur, etc. Good luck!

When you finish your assignment, make sure you show it to your tutor to get some feedback.
Readings
The General Partnership

A general partnership (or simply partnership) is an association of two or more people carrying on a business with the goal of earning a profit. A partnership is viewed as being one and the same as its owners. There is little formality involved in creating a partnership. In fact, if someone can establish that you are in business with somebody else, then there is a general partnership. The intention or lack thereof of having a formal partnership is not important.

Existence of a Partnership

Rules for determining the existence of a partnership are outlined in Part II of the Uniform Partnership Act (UPA). Some of these rules are summarized as follows:

1. Joint tenancy, common property, part ownership, etc. does not by itself establish a partnership, regardless of whether the owners of the property share any profits from it. Three ways to jointly own property are:
   A. Tenants in common - when one dies, one's portion of the partnership is transferred to one's heirs.
   B. Joint tenancy - right of survivorship - when one dies, the entire interest goes to the other person.
   C. Tenancy by entirety - for example, a husband and wife. Each tenant owns by whole and by part. If a third party has a claim against the husband, the claimant cannot go after the property since it belongs wholly to the wife as well. For this reason, banks often require both the husband and the wife to sign a loan.

2. Sharing of gross returns from jointly held property also does not by itself establish a partnership.

3. The receipt of a share of profits from a business is evidence of being a partner of that business, unless the profits were received as payment on a debt, interest, wages, rent, etc.

A person may be considered a partner even if not formally included in the partnership. This is known as partnership by estoppel. "Estoppel" means that one is not permitted to deny. In the context of partnerships, it means that a person cannot deny being a partner if he permits the partnership use his name. Take for example, a situation in which partner A and partner B start a business and offer non-partner C a profit interest in the company if they can use C's name in the business. If a bank lends money to the partnership and the partnership becomes insolvent, C would be considered a partner and could be held liable.
Partnership Taxation
Like a sole proprietorship, a partnership has only one level of taxation. A partnership is a tax-reporting entity, not a tax-paying entity. Profits pass through to the owners and are divided in accordance with what is specified in the partnership agreement. There are no restrictions on how profits are allocated among partners as long as there is economic reason, so there is latitude in allocating income according to which partners have the best tax rates.

Liability
While pass-through taxation is an advantage, owners of a partnership have unlimited personal liability. In general, each partner in a partnership is jointly liable for the partnership's obligations. Joint liability means that the partners can be sued as a group. Several liability means that the partners are individually liable. In some states, each partner is both jointly and severally liable for the damages resulting from the wrongdoing of other partners, and for the debts and obligations of the partnership.

Three rules for liability in a partnership are:

1. Every partner is liable for his or her own actions.
2. Every partner is liable for the actions of the other partners.
3. Every partner is liable for the actions of the employees of the business.

As an example to illustrate liability in a partnership, suppose there is a partnership formed by partners A, B, and C. If partner A accidentally runs over somebody while driving on a personal trip to the grocery store one weekend, then A alone has unlimited personal liability. If partner A accidentally runs over somebody while making a delivery for the partnership, then A still has unlimited personal liability, but all three partners would be jointly and severally liable. If the victim wins a judgement of $1 million against the partnership, and only partner B has the money, then B would have to pay the judgement. Partner B could assert a right of contribution against partner A, but if A has no money it would not be worth the effort. If an employee of the partnership, employee E, accidentally runs over somebody during the course of work, then the partnership is liable since the employer is responsible for the actions of an employee within the scope of business. If the accident happened while the employee stopped for something personal, then the employer would not be responsible (frolic and detour).

Risk and Control
Absent an agreement to the contrary, UPA gives partners equal voting rights, even if they contributed different amounts of capital. Squeeze-outs are a common issue in partnerships.
Expense and formality
As in the case of a sole proprietorship, if the partnership chooses a fictitious name (different from the names of the partners), it is required to file that name with the state.

Fiduciary Duty in a Partnership
Partners owe both a contractual duty and a fiduciary duty to one another. According to Black’s Law Dictionary, a fiduciary duty is the duty to act for someone else’s benefit while subordinating one’s personal interests to those of the other person. These days however, many operating agreements waive the fiduciary duty so that one can pursue other opportunities that may come along.

Case: Meinhard v. Salmon

Facts
Salmon wanted to lease some property in New York. The lease was to run from 1902 to 1922. He formed a partnership with Meinhard who put up 50% of the money. Salmon would be the active manager and would pay Meinhard 40% of the profits for the first five years, and 50% thereafter. In 1922 the lease was up for renewal and the owner of the property, speaking only with Salmon, offered to make some adjacent property available. Salmon signed a lease for the property on behalf of his own firm, Midpoint Realty Company, of which Meinhard was not an owner. Salmon had not told Meinhard anything about the new lease or even the possibility of a new project.

Issue
Meinhard claimed that Salmon had a fiduciary duty to provide him the opportunity to participate in the deal.

Holding
The court ruled in favor of Meinhard.

Reasoning
The new deal was an extension of the old one. While Salmon did not act in bad faith, he had a fiduciary duty to Meinhard.

As one person put it, "a partnership is just like a marriage."

Issues to Address when Forming a Partnership
To reduce the chances of disputes among the partners, a written partnership agreement always should be drawn up before going into business as a partnership.

The Revised Uniform Partnership Act (RUPA) was issued in 1994. It is a revision of the original Uniform Partnership Act that dates back to 1914.
UPA is interstitial; it fills in the gaps in the specific partnership agreement.

Issues to address in forming a general partnership:

- Amount of capital contributed by each person, and if more is needed at a later date, who contributes it, and any limitations to someone's maximum contribution.

- Rights and responsibilities of each partner.

- Division of profits among the partners.

- Distribution of assets upon dissolution of the company. If one partner wakes up one day and wants out, the partnership dissolves. But liquidation would destroy the value of the business, so the partnership agreement should provide rules for a partner's exit. One partner can transfer a profit interest to an external party, but not control. Some options for distribution of assets include:

  - Right of first refusal - a provision that requires the departing partner to allow the remaining partners to buy his or her share of the business at the same price of a bona fide external offer.

  - Right of first offer - since the time delay associated with giving existing partners the right of first refusal may discourage external parties' interest in bidding, the right of first offer may be used instead. The right of first offer is a provision that requires the departing partner to offer to sell his or her share of the business to the other partners before offering it externally.

  - Dutch auction - a provision in which one partner offers to sell to the other partner at a particular price. If the other partner refuses, the first partner must buy the other partners share at that price. This arrangement provides strong incentive for a fair asking price. Note that the term "Dutch auction" has other meanings as well - it also refers to both a descending price auction and to an auction in which several identical items are auctioned and all successful bidders pay the either the price of the lowest successful bidder or their bid prices, depending on the specific auction rules.

  - Third party arbitrator - an outside party sets the price.
Share (finance)


From Wikipedia, the free encyclopedia

In financial markets, a share is a unit of account for various financial instruments including stocks, mutual funds, limited partnerships, and REIT’s. In British English, use of the word shares in the plural to refer to stock is so common that it almost replaces the word stock itself. And especially in American English, the plural stocks is widely used instead of shares, in other words to refer to the stock (or perhaps originally stock certificates) of even a single company. Traditionalist demands that the plural stocks be used to refer only to stock of more than one company are rarely heard nowadays.

The income received from shares is called a dividend, and a person who owns shares is called a shareholder.

A share is one of a finite number of equal portions in the capital of a company, entitling the owner to a proportion of distributed, non-reinvested profits known as dividends and to a portion of the value of the company in case of liquidation. Shares can be voting or non-voting, meaning they either do or do not carry the right to vote on the board of directors and corporate policy. Whether this right exists often affects the value of the share. Voting and Non-Voting shares are also known as Class A and B shares.

A share entitling to 1/8 of the Stora Kopparberg copper mine.
The Post-it note, invented by Dr. Spencer Silver and manufactured by 3M, is a piece of stationery with a re-adherable strip of adhesive on the back, designed for temporarily attaching notes to documents, computer displays, and so forth. While now available in a wide range of colors, shapes, and sizes, the most common size of Post-it note is a 3-in (7.5-cm) square, trademark canary yellow in color. The notes use a unique low-tack adhesive that enables Post-it notes to be easily attached and removed without leaving marks or residue. The name "Post-it" and the canary yellow color are trademarks of 3M. Accepted generic terms for competitors include "sticky notes" or "repositionable" or "repositional notes." 3M manufactures other products related to the Post-it note concept, leveraging the success of the brand. Computerized versions of Post-it notes include 3M’s own "Post-it Software Notes."

History
In 1968, Dr. Spencer Silver, a scientist at 3M in the United States, developed a "low-tack", reusable adhesive. For five years, Silver promoted his invention within 3M, both informally and through seminars, but without much success. In 1974, a colleague of his, Arthur Fry, who sang in a church choir, was frustrated that his bookmarks kept falling out of his hymnal. He had attended one of Silver’s seminars, and, while listening to a sermon in church, he came up with the idea of using the adhesive to anchor his bookmarks.[1] He then developed the idea by taking advantage of 3M’s officially sanctioned bootlegging policy. 3M launched the product in 1977 but it failed as consumers had not tried the product. A year later 3M issued free samples to residents of Boise, Idaho, United States. 90% of people who tried them said that they would buy the product. By 1980 the product was sold nationwide in the US and a year later they were launched in Canada and Europe.[2] In 2003, the company came out with Post-it Super Sticky notes, with a stronger glue that adheres better to vertical and non-smooth surfaces.
Post-it Notes in art

A pad of fan-folded Post-it pop-up notes, shown still glued together

In 2004, Paola Antonelli, a curator of architecture and design, included Post-it notes in a show entitled "Humble Masterpieces." Rebecca Murtaugh is a California artist who uses Post-it notes in her artwork. In 2001, she created an installation in her bedroom using $1000 worth of Post-it notes: She covered the whole room in Post-it notes, using the ordinary yellow for objects she saw as having less value, and neon colors for more important objects, such as the bed. Since 2005 Jésica López from Monterrey, Mexico (1979), has been painting series of figures and portraits with acrylic on Post-it notes to depict, for instance, the faces of the so called "100 most powerful women" of the Forbes list of 2006.

In 2000 the 20th anniversary of Post-it notes was celebrated by having artists create their artwork on Post-it notes. One note that was made by artist R. B. Kitaj sold for £640 in an auction, making it the most valuable Post-it note on record. In 2005, Pat Terlizzi made a stop motion animation called "Post-it" which was featured on the website Youtube.com. Within the first day of being featured it topped 500,000 views. The video shows post it notes forming people like shapes, resulting in the ultimate suicide of one of them. It is set to an African Congo beat.
Trademark


From Wikipedia, the free encyclopedia

A trademark or trade mark is a distinctive sign or indicator used by an individual, business organization, or other legal entity to identify that the products or services to consumers with which the trademark appears originate from a unique source, and to distinguish its products or services from those of other entities.

A trademark is designated by the following symbols:

- ™ (for an unregistered trade mark, that is, a mark used to promote or brand goods)
- ℠ (for an unregistered service mark, that is, a mark used to promote or brand services)
- ® (for a registered trademark)

A trademark is a type of intellectual property, and typically a name, word, phrase, logo, symbol, design, image, or a combination of these elements. There is also a range of non-conventional trademarks comprising marks which do not fall into these standard categories.

The owner of a registered trademark may commence legal proceedings for trademark infringement to prevent unauthorized use of that trademark. However, registration is not required. The owner of a common law trademark may also file suit, but an unregistered mark may be protectable only within the geographical area within which it has been used or in geographical areas into which it may be reasonably expected to expand.

The term trademark is also used informally to refer to any distinguishing attribute by which an individual is readily identified, such as the well known characteristics of celebrities. When a trademark is used in relation to services rather than products, it may sometimes be called a service mark, particularly in the United States.

Fundamental concepts

The essential function of a trademark is to exclusively identify the commercial source or origin of products or services, such that a trademark, properly called, indicates source or serves as a badge of origin. In other words, trademarks serve to identify a particular business as the source of goods or services. The use of a trademark in this way is known as trademark use. Certain exclusive rights attach to a registered
mark, which can be enforced by way of an action for trademark infringement, while unregistered trademark rights may be enforced pursuant to the common law tort of passing off.

It should be noted that trademark rights generally arise out of the use or to maintain exclusive rights over that sign in relation to certain products or services, assuming there are no other trademark objections.

Different goods and services have been classified by the International (Nice) Classification of Goods and Services into 45 Trademark Classes (1 to 34 cover goods, and 35 to 45 services). The idea of this system is to specify and limit the extension of the intellectual property right by determining which goods or services are covered by the mark, and to unify classification systems around the world.

History

In trademark treatises it is usually reported that blacksmiths who made swords in the Roman Empire are thought of as being the first users of trademarks.[3] Other notable trademarks that have been used for a long time include Löwenbräu, which claims use since 1383, and Stella Artois, which claims use since 1366. [citation needed]

Registered trademarks involve registering the trademark with the government. The oldest registered trademarks in various countries include:

- **United Kingdom**: 1876 – The Bass Red Triangle was the first trademark to be registered under the Trade Mark Registration Act 1875. [4]
- **United States**: Picture of Samson wrestling a lion, to Samson Rope.

Symbols

The two symbols associated with U.S. trademarks ™ (the trademark symbol) and ® (the registered trademark symbol) represent the status of a mark and accordingly its level of protection. While ™ can be used with any common law usage of a mark, ® may only be used by the owner of a mark following registration with the relevant national authority, such as the U.S. Patent and Trademark Office (USPTO or PTO). The proper manner to display either symbol is immediately following the mark in superscript style.

Terminology

Terms such as "mark", "brand" and "logo" are sometimes used interchangeably with "trademark". "Trademark", however, also includes any device, brand, label, name, signature, word, letter, numerical, shape of goods, packaging, colour or combination of colours, smell, sound,
movement or any combination thereof which is capable of distinguishing goods and services of one business from those of others. It must be capable of graphical representation and must be applied to goods or services for which it is registered.

Specialized types of trademark include certification marks, collective trademarks and defensive trademarks. A trademark which is popularly used to describe a product or service (rather than to distinguish the product or services from those of third parties) is sometimes known as a genericized trademark. If such a mark becomes synonymous with that product or service to the extent that the trademark owner can no longer enforce its proprietary rights, the mark becomes generic.

**Registration**

The law considers a trademark to be a form of property. Proprietary rights in relation to a trademark may be established through actual use in the marketplace, or through registration of the mark with the trademarks office (or "trademarks registry") of a particular jurisdiction. In some jurisdictions, trademark rights can be established through either or both means. Certain jurisdictions generally do not recognize trademarks rights arising through use. In the United States the only way to qualify for a federally registered trademark is to first use the trademark in commerce. If trademark owners do not hold registrations for their marks in such jurisdictions, the extent to which they will be able to enforce their rights through trademark infringement proceedings will therefore be limited. In cases of dispute, this disparity of rights is often referred to as "first to file" as opposed to "first to use." Other countries such as Germany offer a limited amount of common law rights for unregistered marks where to gain protection, the goods or services must occupy a highly significant position in the marketplace - where this could be 40% or more market share for sales in the particular class of goods or services.

A registered trademark confers a bundle of exclusive rights upon the registered owner, including the right to exclusive use of the mark in relation to the products or services for which it is registered. The law in most jurisdictions also allows the owner of a registered trademark to prevent unauthorized use of the mark in relation to products or services which are identical or "colourfully" similar to the "registered" products or services, and in certain cases, prevent use in relation to entirely dissimilar products or services. The test is always whether a consumer of the goods or services will be confused as to the identity of the source or origin. An example may be a very large multinational brand such as "Sony" where a non-electronic product such as a pair of sunglasses might be assumed to have come from Sony Corporation of Japan despite not being a class of goods that Sony has rights in.

Once trademark rights are established in a particular jurisdiction, these rights are generally only enforceable in that jurisdiction, a quality which
is sometimes known as **territoriality**. However, there is a range of international trademark laws and systems which facilitate the protection of trademarks in more than one jurisdiction (see *international trademark laws* below).

**Search**

The USPTO maintains a database of registered trademarks. The database is open to the public; however a licensed attorney may be required to interpret the search results. Furthermore as trademarks are governed by federal law, state law and common law, a thorough search as to the availability of a mark is very important. In the United States, obtaining a trademark search and relying upon the results of an opinion issued by an attorney may insulate a trademark user from being required to pay treble damages and attorney's fees in a trademark infringement case as it demonstrates that the trademark user performed due diligence and was using the mark in good faith. The USPTO internally captures more information about trademarks than what they publicly disclose on their official search website. For example, the USPTO collects information about what exactly is shown inside every logo trademark filing.

Trademarks may also be searched on third-party databases, such as LexisNexis, Dialog and Compu-Mark.

In Europe and if a community trademark has to be filed, searches have to be conducted with the OHIM (Community Trademark Office) and with the various national offices. An alternative solution is to conduct a trademark search within private databases.

**Ability to register**

In most systems, a trademark can be registered if it is able to distinguish the goods or services of a party, will not confuse consumers about the relationship between one party and another, and will not otherwise deceive consumers with respect to the qualities of the product.

**Maintaining rights**

Trademarks rights must be maintained through actual lawful use of the trademark. These rights will cease if a mark is not actively used for a period of time, normally 5 years in most jurisdictions. In the case of a trademark registration, failure to actively use the mark in the lawful course of trade, or to enforce the registration in the event of infringement, may also expose the registration itself to become liable for an application for the removal from the register after a certain period of time on the grounds of "non-use". It is not necessary for a trademark owner to take enforcement action against all infringement if it can be shown that the owner perceived the infringement to be minor and inconsequential. This is designed to prevent owners from continually being tied up in litigation for fear of cancellation. An owner can at any
time commence action for infringement against a third party as long as it had not previously notified the third party of its discontent following third party use and then failed to take action within a reasonable period of time (called acquiescence). The owner can always reserve the right to take legal action until a court decides that the third party had gained notoriety which the owner ‘must’ have been aware of. It will be for the third party to prove their use of the mark is substantial as it is the onus of a company using a mark to check they are not infringing previously registered rights. In the US, owing to the overwhelming number of unregistered rights, trademark applicants are advised to perform searches not just of the trademark register but of local business directories and relevant trade press. Specialized search companies perform such tasks prior to application.

All jurisdictions with a mature trademark registration system provide a mechanism for removal in the event of such non use, which is usually a period of either three or five years. The intention to use a trademark can be proven by a wide range of acts as shown in the "Wooly Bull" and "Ashton v Harlee" cases.

In the U.S., failure to use a trademark for this period of time, aside from the corresponding impact on product quality, will result in abandonment of the mark, whereby any party may use the mark. An abandoned mark is not irrevocably in the public domain, but may instead be re-registered by any party which has re-established exclusive and active use, and must be associated or linked with the original mark owner. If a court rules that a trademark has become "generic" through common use (such that the mark no longer performs the essential trademark function and the average consumer no longer considers that exclusive rights attach to it), the corresponding registration may also be ruled invalid.

For examples, see trademark distinctiveness.

Enforcing rights

The extent to which a trademark owner may prevent unauthorized use of trademarks which are the same as or similar to its trademark depends on various factors such as whether its trademark is registered, the similarity of the trademarks involved, the similarity of the products or services involved, and whether the owner’s trademark is well known.

If a trademark has not been registered, some jurisdictions (especially Common Law countries) offer protection for the business reputation or goodwill which attaches to unregistered trademarks through the tort of passing off. Passing off may provide a remedy in a scenario where a business has been trading under an unregistered trademark for many years, and a rival business starts using the same or a similar mark.

If a trademark has been registered, then it is much easier for the trademark owner to demonstrate its trademark rights and to enforce
these rights through an infringement action. Unauthorized use of a registered trademark need not be intentional in order for infringement to occur, although damages in an infringement lawsuit will generally be greater if there was an intention to deceive.

For trademarks which are considered to be well known, infringing use may occur where the use occurs in relation to products or services which are not the same as or similar to the products or services in relation to which the owner’s mark is registered.

Limits and defenses to claims of infringement

Trademark is subject to various defenses, such as abandonment, limitations on geographic scope, and fair use. In the United States, the fair use defense protects uses that would be otherwise protected by the First Amendment.³ Fair use may be asserted on two grounds, either that the alleged infringer is using the mark to describe accurately an aspect of its products, or that the alleged infringer is using the mark to identify the mark owner. One of the most visible proofs that trademarks provide a limited right in the U.S. comes from the comparative advertising that is seen throughout U.S. media.⁴

An example of the first type is that although Maytag owns the trademark "Whisper Quiet", makers of other products may describe their goods as being "whisper quiet" so long as these competitors are not using the phrase as a trademark.

An example of the second type is that Audi can run advertisements saying that a trade publication has rated an Audi model higher than a BMW model, since they are only using "BMW" to identify the competitor. In a related sense, an auto mechanic can truthfully advertise that he services Cadillacs, and a former Playboy Playmate of the Year can identify herself as such on her website.⁵

Wrongful or groundless threats of infringement

Various jurisdictions have laws which are designed to prevent trademark owners from making wrongful threats of trademark infringement action against other parties. These laws are intended to prevent large or powerful companies from intimidating or harassing smaller companies.

Where one party makes a threat to sue another for trademark infringement, but does not have a genuine basis or intention to carry out that threat, or does not carry out the threat at all within a certain period, the threat may itself become a basis for legal action.⁶ In this situation, the party receiving such a threat may seek from the Court, a declaratory judgment; also known as a declaratory ruling.

Public policy
Trademark law is designed to fulfill the public policy objective of consumer protection, by preventing the public from being misled as to the origin or quality of a product or service. By identifying the commercial source of products and services, trademarks facilitate identification of products and services which meet the expectations of consumers as to quality and other characteristics.

Trademarks may also serve as an incentive for manufacturers, providers or suppliers to consistently provide quality products or services in order to maintain their business reputation. Furthermore, if a trademark owner does not maintain quality control and adequate supervision in relation to the manufacture and provision of products or services supplied by a licensee, such "naked licensing" will eventually adversely affect the owner's rights in the trademark. This proposition has, however, been watered down by the judgment of the House of Lords in the case of Scandecor Development AB v. Scandecor Marketing AB et al. [2001] UKHL 21; wherein it has been held that the mere fact that a bare license (equivalent of the United States concept of a naked license) has been granted did not automatically mean that a trademark was liable to mislead.

By the same token, trademark holders must be cautious in the sale of their mark for similar reasons as apply to licensing. When assigning an interest in a trademark, if the associated product or service is not transferred with it, then this may be an "assignment-in-gross" and could lead to a loss of rights in the trademark. It is still possible to make significant changes to the underlying goods or services during a sale without jeopardizing the trademark, but companies will often contract with the sellers to help transition the mark and goods or services to the new owners to ensure continuity of the trademark.

**Comparison with patents, designs and copyright**

See also: Functionality doctrine

While trademark law seeks to protect indications of the commercial source of products or services, patent law generally seeks to protect new and useful inventions, and registered designs law generally seeks to protect the look or appearance of a manufactured article. Trademarks, patents and designs collectively form a subset of intellectual property known as industrial property because they are often created and used in an industrial or commercial context.

By comparison, copyright law generally seeks to protect original literary, artistic and other creative works. Continued active use and re-registration can make a trademark perpetual, whereas copyright usually lasts for the duration of the author’s lifespan plus 70 years for works by individuals, and some limited time after creation for works by bodies corporate. This can lead to confusion in cases where a work passes
into the public domain but the character in question remains a registered trademark.\[11]\n
Although intellectual property laws such as these are theoretically distinct, more than one type may afford protection to the same article. For example, the particular design of a bottle may qualify for copyright protection as a non-utilitarian [sculpture], or for trademark protection based on its shape, or the 'trade dress' appearance of the bottle as a whole may be protectable. Titles and character names from books or movies may also be protectable as trademarks while the works from which they are drawn may qualify for copyright protection as a whole.

Drawing these distinctions is necessary, but often challenging for the courts and lawyers, especially in jurisdictions where patents and copyrights pass into the public domain, depending on the jurisdiction. Unlike patents and copyrights, which in theory, are granted for one-off fixed terms, trademarks remain valid as long as the owner actively uses and defends them and maintains their registrations with the competent authorities. This often involves payment of a periodic renewal fee.

As a trademark must be used in order to maintain rights in relation to that mark, a trademark can be 'abandoned' or its registration can be cancelled or revoked if the mark is not continuously used. By comparison, patents and copyrights cannot be 'abandoned' and a patent holder or copyright owner can generally enforce their rights without taking any particular action to maintain the patent or copyright. Additionally, patent holders and copyright owners may not necessarily need to actively police their rights. However, a failure to bring a timely infringement suit or action against a known infringer may give the defendant a defense of implied consent or estoppel when suit is finally brought.

**Dilution**

Main article: Trademark dilution

A trademark is *diluted* when the use of similar or identical trademarks in other non-competing markets means that the trademark in and of itself will lose its capacity to signify a single source. In other words, unlike ordinary trademark law, dilution protection extends to trademark uses that do not confuse consumers regarding who has made a product. Instead, dilution protection law aims to protect sufficiently strong trademarks from losing their singular association in the public mind with a particular product, perhaps imagined if the trademark were to be encountered independently of any product (e.g., just the word Pepsi spoken, or on a billboard). Under trademark law, dilution occurs either when unauthorized use of a mark "blurs" the "distinctive nature of the mark" or "tarnishes it." Likelihood of confusion is not required. 15 U.S.C §§ 1127, 1125(c).
Sale, transfer and licensing

In various jurisdictions a trademark may be sold with or without the underlying goodwill which subsists in the business associated with the mark. However, this is not the case in the United States, where the courts have held that this would "be a fraud upon the public". In the U.S., trademark registration can therefore only be sold and assigned if accompanied by the sale of an underlying asset. Examples of assets whose sale would ordinarily support the assignment of a mark include the sale of the machinery used to produce the goods that bear the mark, or the sale of the corporation (or subsidiary) that produces the trademarked goods.

Most jurisdictions provide for the use of trademarks to be licensed to third parties. The licensor (usually the trademark owner) must monitor the quality of the goods being produced by the licensee to avoid the risk of trademark being deemed abandoned by the courts. A trademark license should therefore include appropriate provisions dealing with quality control, whereby the licensee provides warranties as to quality and the licensor has rights to inspection and monitoring.

Domain names

The advent of the domain name system has led to attempts by trademark holders to enforce their rights over domain names that are similar or identical to their existing trademarks, particularly by seeking control over the domain names at issue. As with dilution protection, enforcing trademark rights over domain name owners involves protecting a trademark outside the obvious context of its consumer market, because domain names are global and not limited by goods or service.

This conflict was more easily resolved when the domain name user actually used his website to compete with the trademark owner. Cybersquatting, however, involves no such competition, but instead an unlicensed user registering the trademark as a domain name in order to pressure a payoff (or other benefit) from the lawful mark owner. Typosquatters—those registering common misspellings of trademarks as domain names—have also been targeted successfully in trademark infringement suits. Other types of domain name disputes include the so-called "gripe site," which use a registered trademark in a domain such as "[trademark]sucks.com." There are also disputes arising from the subdomain, when a third party uses a protected mark in a web address such as "[trademark].[legitimatedomain].com."[121]

This clash of the new technology with preexisting trademark rights resulted in several high profile decisions as the courts of many countries tried to coherently address the issue (and not always successfully) within the framework of existing trademark law. As the website itself was not the product being purchased, there was no actual consumer confusion,
and so initial interest confusion was a concept applied instead. Initial interest confusion refers to customer confusion that creates an initial interest in a competitor’s “product” (in the online context, another party's website). Even though initial interest confusion is dispelled by the time any actual sales occur, it allows a trademark infringer to capitalize on the goodwill associated with the original mark.

Several cases have wrestled with the concept of initial interest confusion. In *Brookfield Commc'n v. West Coast Ent'mt* the court found initial interest confusion could occur when a competitor’s trademarked terms were used in the HTML metatags of a website, resulting in that site appearing in the search results when a user searches on the trademarked term. In *Playboy v. Netscape*, the court found initial interest confusion when users typed in Playboy’s trademarks into a search engine, resulting in the display of search results alongside unlabeled banner ads, triggered by keywords that included Playboy’s marks, that would take users to Playboy’s competitors. Though users might ultimately realize upon clicking on the banner ads that they were not Playboy-affiliated, the court found that the competitor advertisers could have gained customers by appropriating Playboy’s goodwill since users may be perfectly happy to browse the competitor’s site instead of returning the search results to find the Playboy sites.

In *Lamparello v. Falwell*, however, the court clarified that a finding of initial interest confusion is contingent on financial profit from said confusion, such that, if a domain name confusing similar to a registered trademark is used for a non-trademark related website, the site owner will not be found to have infringed where he does not seek to capitalize on the mark's goodwill for his own commercial enterprises.

In addition, courts have upheld the rights of trademark owners with regard to commercial use of domain names, even in cases where goods sold there legitimately bear the mark. In the landmark decision *Creative Gifts, Inc. v. UFO*, 235 F.3d 540 (10th Cir. 2000)(New Mexico), defendants had registered the domain name "Levitron.com" to sell goods bearing the trademark "Levitron" under an at-will license from the trademark owner. The 10th Circuit affirmed the rights of the trademark owner with regard to said domain name, despite arguments of promissory estoppel.

Most courts particularly frowned on cybersquatting, and found that it was itself a sufficiently commercial use (i.e., "trafficking" in trademarks) to reach into the area of trademark infringement. Most jurisdictions have since amended their trademark laws to address domain names specifically, and to provide explicit remedies against cybersquatters.

In the US, the legal situation was clarified by the *Anticybersquatting Consumer Protection Act*, an amendment to the Lanham Act, which explicitly prohibited cybersquatting. It defines cybersquatting as "(occurring) when a person other than the trademark holder registers
the domain name of a well known trademark and then attempts to profit from this by either ransoming the domain name back to the trademark holder or using the domain name to divert business from the trademark holder to the domain name holder" [13]. The provision states that "[a] person shall be liable in a civil action by the owner of the mark ... if, without regard to the goods or services of the person, that person (i) had a bad faith intent to profit from the mark ...; and registers, traffics in, or uses domain name [that is confusingly similar to another's mark or dilutes another's mark]"[14].

This international legal change has also led to the creation of ICANN Uniform Domain-Name Dispute-Resolution Policy (UDRP) and other dispute policies for specific countries (such as Nominet UK's DRS) which attempt to streamline the process of resolving who should own a domain name (without dealing with other infringement issues such as damages). This is particularly desirable to trademark owners when the domain name registrant may be in another country or even anonymous.

Registrants of domain names also sometimes wish to register the domain names themselves (e.g., "XYZ.COM") as trademarks for perceived advantages, such as an extra bulwark against their domain being hijacked, and to avail themselves of such remedies as confusion or passing off against other domain holders with confusingly similar or intentionally misspelled domain names.

As with other trademarks, the domain name will not be subject to registration unless the proposed mark is actually used to identify the registrant's goods or services to the public, rather than simply being the location on the Internet where the applicant's website appears. Amazon.com is a prime example of a protected trademark for a domain name central to the public's identification of the company and its products.

Terms which are not protectable by themselves, such as a generic term or a merely descriptive term that has not acquired secondary meaning, may become registrable when a Top-Level Domain Name (e.g. dot-COM) is appended to it. An example of such a domain name ineligible for trademark or service mark protection as a generic term, but which currently has a registered U.S. service mark, is "HEARSAY.COM".

Among trademark practitioners there remains a great deal of debate around trademark protection under ICANN's proposed generic top-level domain name space expansion. World Trademark Review has been reporting on the at times fiery discussion between trademark owners and domainers[15].
Patent


From Wikipedia, the free encyclopedia

A **patent** is a set of exclusive rights granted by a state to an inventor or his assignee for a fixed period of time in exchange for a disclosure of an invention.

The procedure for granting patents, the requirements placed on the patentee and the extent of the exclusive rights vary widely between countries according to national laws and international agreements. Typically, however, a patent application must include one or more claims defining the invention which must be new, inventive, and useful or industrially applicable. The exclusive right granted to a patentee in most countries is the right to prevent or exclude others from making, using, selling, offering to sell or importing the invention.

**Definition**

The term "patent" usually refers to a right granted to anyone who invents or discovers any new and useful process, machine, article of manufacture, or composition of matter, or any new and useful improvement thereof. The additional qualification "utility patents" is used in countries such as the United States to distinguish them from other types of patents but should not be confused with utility models granted by other countries. Examples of particular species of patents for inventions include biological patents, business method patents, chemical patents and software patents.

Some other types of intellectual property rights are referred to as "patents" in some jurisdictions: industrial design rights are called "design patents" in some jurisdictions (they protect the visual design of objects that are not purely utilitarian), plant breeders' rights are sometimes called "plant patents", and utility models or Gebrauchsmuster are sometimes called "petty patents" or "innovation patents". This article relates primarily to the patent for an invention, although so-called petty patents and utility models may also be granted for inventions. Certain grants made by the monarch in pursuance of the royal prerogative were sometimes called "letters patent", which was a government notice to the public of a grant of an exclusive right to ownership and possession. These were often grants of a patent-like monopoly and predate the modern British origins of the patent system.

For other uses of the term "patent" see Land patent which were land grants by early state governments in the USA. This reflects the original meaning of "letters patent" that had a broader scope than current usage.
Law

Effects
A patent is not a right to practice or use the invention. Rather, a patent provides the right to exclude others from making, using, selling, offering for sale, or importing the patented invention for the term of the patent, usually 20 years from the filing date. A patent is, in effect, a limited property right that the government offers to inventors in exchange for their agreement to share the details of their inventions with the public. Like any other property right, it may be sold, licensed, mortgaged, assigned or transferred, given away, or simply abandoned. The rights conveyed by a patent vary country-by-country. For example, in the United States, a patent covers research, except "purely philosophical" inquiry. A U.S. patent is infringed by any "making" of the invention, even a making that goes toward development of a new invention — which may itself become subject of a patent. In contrast, Australian law permits others to build on top of a patented invention, by carving out exceptions from infringement for those who conduct research (e.g. for academic purposes) on the invention.

A patent being an exclusionary right does not, however, necessarily give the owner of the patent the right to exploit the patent. For example, many inventions are improvements of prior inventions which may still be covered by someone else's patent. If an inventor takes an existing patented mouse trap design, adds a new feature to make an improved mouse trap, and obtains a patent on the improvement, he or she can only legally build his or her improved mouse trap with permission from the patent holder of the original mouse trap, assuming the original patent is still in force. On the other hand, the owner of the improved mouse trap can exclude the original patent owner from using the improvement.

Some countries have "working provisions" which require that the invention be exploited in the jurisdiction it covers. Consequences of not working an invention vary from one country to another, ranging from revocation of the patent rights to the awarding of a compulsory license awarded by the courts to a party wishing to exploit a patented invention. The patentee has the opportunity to challenge the revocation or license, but is usually required to provide evidence that the reasonable requirements of the public have been met by the working of invention.
Enforcement

The plate of the Martin ejector seat of the military aircraft, stating that the design is covered by multiple patents in Britain, South Africa, Canada and "others". Dübendorf Museum of Military Aviation.

Patents can generally only be enforced through civil lawsuits (for example, for a US patent, by an action for patent infringement in a United States federal court), although some territories (such as France and Austria) have criminal penalties for wanton infringement. Typically, the patent owner will seek monetary compensation for past infringement, and will seek an injunction prohibiting the defendant from engaging in future acts of infringement. In order to prove infringement, the patent owner must establish that the accused infringer practices all of the requirements of at least one of the claims of the patent (noting that in many jurisdictions the scope of the patent may not be limited to what is literally stated in the claims, for example due to the "doctrine of equivalents").

An important limitation on the ability of a patent owner to successfully assert the patent in civil litigation is the accused infringer’s right to challenge the validity of that patent. Civil courts hearing patent cases can and often do declare patents invalid. The grounds on which a patent can be found invalid are set out in the relevant patent legislation and vary between countries. Often, the grounds are a sub-set of the requirements for patentability in the relevant country. Whilst an infringer is generally free to rely on any available ground of invalidity (such as a prior publication, for example), some countries have sanctions to prevent the same validity questions being relitigated. An example is the UK Certificate of contested validity.
The vast majority of patent rights, however, are not determined through litigation, but are resolved privately through patent licensing. Patent licensing agreements are effectively contracts in which the patent owner (the licensor) agrees not to sue the licensee for infringement of the licensor's patent rights, usually in return for a royalty or other payment. It is common for companies engaged in complex technical fields to enter into dozens of license agreements associated with the production of a single product. Moreover, it is equally common for competitors in such fields to license patents to each other under cross-licensing agreements in order to gain access to each other's patents. A cross license agreement could be highly desirable to the mouse trap developers discussed above, for example, because it would permit both parties to profit off each other's inventions.

The United Nations Statistics Division reports that USA was the top market for patents in force in 2000 closely followed by the EU and Japan.

Ownership

In most countries, both natural persons and corporate entities may apply for a patent. The entity or entities then become the owners of the patent when and if it issues. However, it is nearly always required that the inventor or inventors be named and an indication be given on the public record as to how the owner or owners acquired their rights to the invention from the inventor or inventors.

In the United States, however, only the natural person(s) (i.e. the inventor/s) may apply for a patent. If a patent issues, then each person listed as an inventor owns the patent separately from the other. For example, if two inventors are listed on a patent, then each one may grant licenses to the patent independently of the other, absent an agreement to the contrary.

It is common in the United States for inventors to assign their ownership rights to a corporate entity. Inventors that work for a corporation, for example, often are required to assign their ownership rights to their corporation as a condition of their employment. Independent inventors often assign their ownership rights to a single entity so that only one entity has the right to grant a license.

The ability to assign ownership rights increases the liquidity of a patent as property. Inventors can obtain patents and then sell them to third parties. The third parties then own the patents as if they had originally made the inventions themselves.

Governing Laws

The grant and enforcement of patents are governed by national laws, and also by international treaties, where those treaties have been given effect in national laws. Patents are, therefore, territorial in nature.
Commonly, a nation forms a **patent office** with responsibility for operating that nation's patent system, within the relevant patent laws. The patent office generally has responsibility for the grant of patents, with infringement being the remit of national courts.

There is a trend towards global harmonization of patent laws, with the **World Trade Organization** (WTO) being particularly active in this area. The **TRIPs Agreement** has been largely successful in providing a forum for nations to agree on an aligned set of patent laws. Conformity with the TRIPs agreement is a requirement of admission to the WTO and so compliance is seen by many nations as important. This has also led to many developing nations, which may historically have developed different laws to aid their development, enforcing patents laws in line with global practice.

A key international convention relating to patents is the **Paris Convention for the Protection of Industrial Property**, initially signed in 1883. The Paris Convention sets out a range of basic rules relating to patents, and although the convention does not have direct legal effect in all national jurisdictions, the principles of the convention are incorporated into all notable current patent systems. The most significant aspect of the convention is the provision of the right to claim **priority**: filing an application in any one member state of the Paris Convention preserves the right for one year to file in any other member state, and receive the benefit of the original filing date. Because the right to a patent is intensely date-driven, this right is fundamental to modern patent usage.

The authority for patent statutes in different countries varies. In the United States, the **Constitution** empowers **Congress** to make laws to "promote the Progress of Science and useful Arts..." The laws Congress passed are codified in title 35 of the **United States Code** and created the **United States Patent and Trademark Office**. In the UK, substantive patent law is contained in the **Patents Act 1977** as amended.

In addition, there are international treaty procedures, such as the procedures under the **European Patent Convention** (EPC) [administered by the **European Patent Organisation** (EPOrg)], and the **Patent Cooperation Treaty** (PCT) (administered by WIPO and covering 137 countries), that centralise some portion of the filing and examination procedure. Similar arrangements exist among the member states of **ARIPO, OAPI**, the analogous treaties among African countries.

**Application**

*Main article: Patent application*
A patent is requested by filing a written application at the relevant patent office. The application contains a description of how to make and use the invention and, under some legislations, if not self-evident, the usefulness of the invention. The patent application may or must also comprise "claims". Claims define the invention and embodiments for which the applicant wants patent rights.

To obtain a patent, an applicant must provide a written description of the invention in sufficient detail for a person skilled in the art (i.e., the relevant area of technology) to make and use the invention. This written description is provided in what is known as the patent specification, which is often accompanied by illustrating drawings. Some countries, such as the United States, further require that the specification disclose the "best mode" of the invention (i.e., the most effective way, to the best of the inventor's knowledge, to make or practice the invention).[2] In addition, at the end of the specification, the applicant must provide one or more claims that define what the applicant regards as their invention. A claim, unlike the body of the specification, is a description designed to provide the public with notice of precisely what the patent owner has a right to exclude others from making, using, or selling. Claims are often analogized to a deed or other instrument that, in the context of real property, sets the metes and bounds of an owner's right to exclude. The claims define what a patent covers. A single patent may contain numerous claims, each of which is regarded as a distinct invention.

For a patent to be granted, that is to take legal effect, the patent application must meet the legal requirements related to patentability.

Once a patent application has been filed, most patent offices examine the application for compliance with the requirements of the relevant patent law. If the application does not comply, the objections are usually communicated to the applicant or their patent agent or attorney, who can respond to the objections to attempt to overcome them and obtain the grant of the patent.

In most countries, there is no requirement that the inventor build a prototype or otherwise reduce his or her invention to actual practice in order to obtain a patent. The description of the invention, however, must be sufficiently complete so that another person with ordinary skill in the art of the invention can make and use the invention without undue experimentation. Once granted the patent is subject in most countries to renewal fees, generally due each year,[8] to keep the patent in force.

In Egbert v. Lippmann, 104 U. S. 333 (1881) (the "corset case"), the United States Supreme Court affirmed a decision that an inventor who had "slept on his rights for eleven years" without applying for a patent could not obtain one at that time. This decision has been codified
as 35. U.S.C. §102, which bars an inventor from obtaining a patent if the invention has been in public use for more than one year prior to filing.

Economics

Rationale
There are four primary incentives embodied in the patent system: to invent in the first place; to disclose the invention once made; to invest the sums necessary to experiment, produce and market the invention; and to design around and improve upon earlier patents.[9]

1. Patents provide incentives for economically efficient research and development (R&D). Many large modern corporations have annual R&D budgets of hundreds of millions or even billions of dollars. Without patents, R&D spending would be significantly less or eliminated altogether, limiting the possibility of technological advances or breakthroughs. Corporations would be much more conservative about the R&D investments they made, as third parties would be free to exploit any developments. This second justification is closely related to the basic ideas underlying traditional property rights.

2. In accordance with the original definition of the term "patent," patents facilitate and encourage disclosure of innovations into the public domain for the common good. If inventors did not have the legal protection of patents, in many cases, they would prefer or tend to keep their inventions secret. Awarding patents generally makes the details of new technology publicly available, for exploitation by anyone after the patent expires, or for further improvement by other inventors. Furthermore, when a patent's term has expired, the public record ensures that the patentee's idea is not lost to humanity.

3. In many industries (especially those with high fixed costs and either low marginal costs or low reverse engineering costs — computer processors, software, and pharmaceuticals for example), once an invention exists, the cost of commercialization (testing, tooling up a factory, developing a market, etc.) is far more than the initial conception cost. (For example, the internal "rule of thumb" at several computer companies in the 1980s was that post-R&D costs were 7-to-1). Unless there is some way to prevent copies from competing at the marginal cost of production, companies will not make that productization investment.

4. Patent rights create an incentive for companies to develop workarounds to patented inventions, thereby creating improved or alternative technologies that might not otherwise be developed.
One interesting side effect of modern patent usage is that the small-time inventor can use the exclusive right status to become a licensor. This allows the inventor to accumulate capital quickly from licensing the invention and may allow rapid innovation to occur because he or she may choose to not manage a manufacturing buildup for the invention. Thus the inventor's time and energy can be spent on pure innovation, allowing others to concentrate on manufacturability.

Criticism

While each of the four incentives is achieved by the patent system in some contexts, the patent system has countervailing costs, and those costs fall more heavily in some contexts than others. There are many critics and criticisms of patents and this has resulted in the formation of a large number of groups who oppose patents in general, or specific types of patents, and who lobby for their abolishment. Patents have always been criticized for being granted on already known inventions. In 1938, for example, R. Buckminster Fuller, inventor of the geodesic dome wrote: [10]

“At present (1938), the (US patent) files, are so extraordinarily complex and the items so multitudinous that a veritable army of governmental servants is required to attend them and sort them into some order of distinguishable categories to which reference may be made when corresponding with patent applicants for the purposes of examiner citation of “prior art” disclosure. This complexity makes it inevitable that the human-equation involved in government servants relative to carelessness or mechanical limitations should occasion the granting of multitudes of “probably” invalid patent claims.”

Patents have also been criticized for conferring a "negative right" upon a patent owner, permitting them to exclude competitors from using or exploiting the invention, even if the competitor subsequently develops the same invention independently. This may be subsequent to the date of invention, or to the priority date, depending upon the relevant patent law (see First to file and first to invent). [citation needed]

Patents may hinder innovation as well. A holding company, pejoratively known as a "patent troll", owns a portfolio of patents, and sues others for infringement of these patents while doing little to develop the technology itself. [citation needed]

Another theoretical problem with patent rights was proposed by law professors Michael Heller and Rebecca Sue Eisenberg in a 1998 Science article.[11] Building from Heller's theory of the tragedy of the anticommons, the professors postulated that intellectual property rights may become so fragmented that, effectively, no one can take
advantage of them as to do so would require an agreement between the owners of all of the fragments.

Since at least the early 1980s, patent offices have accepted that computer programs can lie within the realm of patentable subject matter, although the regulations for when a computer program is a patentable invention differ markedly between countries.

In response to perceived problems with the grant of patents, and the evolving nature of technology and industry, there is debate about, and reform of, patent systems around the world. The TRIPs agreement, developed by the WTO has led to the alignment of many patent systems with regard to certain controversial issues, such as what can be protected by patents and the issue of compulsory licences in cases of national need.

**Etymology**
The term "patent" originates from the Latin word *patere* which means "to lay open" (i.e., make available for public inspection) and the term *letters patent*, which originally denoted royal decrees granting exclusive rights to certain individuals or businesses.

**History**
*For more details on this topic, see History of patent law.*

There is evidence suggesting that something like patents was used among some ancient Greek cities. The creator of a new recipe was granted an exclusive right to make the food for one year, and a similar practice existed in some Roman cities. Patents in the modern sense originated in Italy in 1474. At that time the Republic of Venice issued a decree by which new and inventive devices, once they had been put into practice, had to be communicated to the Republic in order to obtain the right to prevent others from using them.
England followed with the *Statute of Monopolies* in 1623 under King *James I*, which declared that patents could only be granted for "projects of new invention." During the reign of *Queen Anne* (1702–1714), the lawyers of the English Court developed the requirement that a written description of the invention must be submitted. These developments, which were in place during the Colonial period, formed the basis for modern English and United States patent law.

In the United States, during the colonial period and *Articles of Confederation* years (1778–1789), several states adopted patent systems of their own. The first Congress adopted a *Patent Act*, in 1790, and the first patent was issued under this Act on *July 31, 1790* (and the subject matter of that patent was for the making of *potash*).
Copyright


From Wikipedia, the free encyclopedia

Copyright is a legal concept enacted by most national governments, that gives the creator of an original work exclusive rights to it, usually for a limited period of time. At its most general, it is literally "the right to copy", but also gives the copyright holder the right to be credited for the work, to determine who (if anyone) can perform it or adapt it to other forms, to benefit financially from the work, and other related rights. It is one form of intellectual property (distinct from patents, trademarks, and trade secrets), and applies to any particular expression of an idea or information, which is substantial and self-contained in a fixed form. The symbol for copyright is "©". (The letter C inside parentheses – "(c)" – although a common practice, has never been legally recognized as a symbol for copyright.)

Scope
Copyright may apply to a wide range of creative, intellectual, or artistic forms or "works". These include poems, theses, plays, and other literary works, movies, choreographic works (dances, ballets, etc.), musical compositions, audio recordings, paintings, drawings, sculptures, photographs, software, radio and television broadcasts of live and other performances, and, in some jurisdictions, industrial designs. Graphic designs or industrial designs may have separate or overlapping laws applied to them in some jurisdictions. Copyright is one of the concepts covered by the umbrella term intellectual property.

Copyright does not cover ideas or information themselves, only the form or manner in which they are expressed. For example, the copyright to a Mickey Mouse cartoon restricts others from making copies of the cartoon or creating derivative works based on Disney's particular anthropomorphic mouse, but doesn't prohibit the creation of other works about anthropomorphic mice in general, so long as they're different enough to not be judged copies of Disney's. In many jurisdictions, copyright law makes exceptions to these restrictions for the purpose of commentary and other related uses (See Fair Use, Fair Dealing). Other laws may impose legal restrictions which copyright does not - such as trademarks and patents.

Copyright laws are standardized somewhat through international conventions such as the Berne Convention which have been ratified by most countries, and are required by international organizations such
as European Union or World Trade Organization from their member states.

**Theoretical basis**
The legislative acts which originally established copyright law as it is known today, cited two fundamental justifications for it: 1) to benefit society by promoting the creation of new works, and 2) to protect the moral rights of the creators of these works.

For example, the Copyright Clause of the United States Constitution (1787) authorized copyright legislation: "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." That is, by guaranteeing them a period of time in which they alone could profit from their works, they would be enabled and encouraged to invest the time required to create them, and this would be good for society as a whole.

The Statute of Anne (1709) also alluded to individual moral rights, beginning: "Whereas Printers, Booksellers, and other Persons, have of late frequently taken the Liberty of Printing... Books, and other Writings, without the Consent of the Authors... to their very great Detriment, and too often to the Ruin of them and their Families:..." A right to benefit financially from the work is articulated, and court rulings and legislation have recognized a right to control the work, such as ensuring that the integrity of it is preserved. An irrevocable right to be recognized as the work's creator appears in some countries' copyright law. A right to profit from the work has been the philosophical underpinning for much legislation extending the duration of copyright to the life of the creator and beyond, to his heirs.

**History**

*Main article: History of copyright law*

Copyright was invented after the advent of the printing press and with wider public literacy. As a legal concept, its origins in Britain were from a reaction to printers' monopolies at the beginning of the eighteenth century. Charles II of England was concerned by the unregulated copying of books and used the royal prerogative to pass the Licensing Act of 1662, which established a register of licensed books and required a copy to be deposited with the Stationers Company, essentially continuing the licensing of material that had long been in effect. The Statute of Anne was the first real copyright act, and gave the publishers rights for a fixed period, after which the copyright expired. Copyright has grown from a legal concept regulating copying rights in the publishing of books and maps to one with a significant effect on nearly every modern industry, covering such items as sound recordings, films, photographs, software, and architectural works.
The **Berne Convention**
The 1886 **Berne Convention** first established recognition of copyrights among sovereign nations, rather than merely bilaterally. Under the Berne Convention, copyrights for creative works do not have to be asserted or declared, as they are automatically in force at creation: an author need not “register” or “apply for” a copyright in countries adhering to the Berne Convention. As soon as a work is “fixed”, that is, written or recorded on some physical medium, its author is automatically entitled to all copyrights in the work, and to any derivative works unless and until the author explicitly disclaims them, or until the copyright expires. The Berne Convention also resulted in foreign authors being treated equivalently to domestic authors, in any country signed onto the Convention.

The UK signed the Berne Convention in 1887 but did not implement large parts of it until 100 years later with the passage of the **Copyright, Designs and Patents Act of 1988**. The USA did not sign the Berne Convention until 1989.

The regulations of the **Berne Convention** are incorporated into the World Trade Organization’s **TRIPS** agreement, thus making the Berne Convention practically world-wide.

**Obtaining and enforcing copyright**
Typically, a work must meet minimal standards of originality in order to qualify for copyright, and the copyright expires after a set period of time (some jurisdictions may allow this to be extended). Different countries impose different tests, although generally the requirements are low; in the United Kingdom there has to be some 'skill, labour and judgment' that has gone into it. However, even fairly trivial amounts of these qualities are sufficient for determining whether a particular act of copying constitutes an infringement of the author’s original expression. In Australia and the United Kingdom it has been held that a single word is insufficient to comprise a copyright work. However, single words or a short string of words can sometimes be registered as a trademark instead.

Copyright law recognises the right of an author based on whether the work actually is an original creation, rather than based on whether it is unique; two authors may own copyright on two substantially identical works, if it is determined that neither was copied from the other. Copyright tries to avoid such situations by applying a test of the degree of substantiality of the originality of the work: a work which is trivial and would be easy to incidentally and accidentally replicate without an intention to copy, may not be copyrighted.

In the United States, copyright has been made automatic (in the style of the Berne Convention) since **March 1, 1989**, which has had the effect
of making it appear to be more like a property right. Thus, as with some forms of personal property, a copyright need not be granted or obtained through official registration with any government office. Once an idea has been reduced to tangible form, for example by securing it in a fixed medium (such as a drawing, sheet music, photograph, a videotape or a letter), the copyright holder is entitled to enforce his or her exclusive rights. However, while a copyright need not be officially registered for the copyright owner to begin exercising his or her exclusive rights, registration of works (where the laws of that jurisdiction provide for registration) does have benefits; it serves as prima facie evidence of a valid copyright and enables the copyright holder to seek statutory damages and attorney's fees (whereas in the USA, for instance, registering after an infringement only enables one to receive actual damages and lost profits). The original holder of the copyright may be the employer of the actual author rather than the author himself if the work is a "work for hire". Again, this principle is widespread; in English law the Copyright Designs and Patents Act 1988 provides that where a work in which copyright subsists is made by an employee in the course of that employment, the copyright is automatically owned by the employer which would be a "Work for Hire."

Copyrights are generally enforced by the holder in a civil law court, but there are also criminal infringement statutes. While central registries are kept which aid in proving claims of ownership, registering ownership is not ipso facto proof of ownership, nor is copying (even without permission) ipso facto proof of infringement of copyright. Criminal sanctions are generally aimed at serious counterfeiting activity, but are now becoming more commonplace as copyright collectives such as the RIAA are, more and more, targeting the file sharing home Internet user. Thus far, however, most such cases against file sharers have been settled out of court for several thousand dollars. (See: File sharing and the law)

Copyright in the U.S.
Prior to 1989, use of a copyright notice — consisting of the copyright symbol (©, the letter C inside a circle), the abbreviation "Copr.", or the word "Copyright", followed by the year of the first publication of the work and the name of the copyright holder — was part of United States statutory requirements. Several years may be noted in the case of multiple completion dates - e.g., in the case of ongoing editing. The proper copyright notice for sound recordings of musical or other audio works is a sound recording copyright symbol (℗, the letter P inside a circle), which indicates a sound recording copyright.

In 1989, the U.S. enacted the Berne Convention Implementation Act, amending the 1976 Copyright Act to conform to most of the provisions of the Berne Convention. As a result, the use of copyright notices has become optional to claim copyright, because the Berne Convention
makes copyright automatic.[5] However, notice of copyright (using these marks) may have consequences in terms of reduced damages in an infringement lawsuit.[6]

The phrase *All rights reserved* was once a necessary formal notice indicating all rights granted under existing copyright law are retained by the copyright holder and that legal action may be taken against copyright infringement. It was provided as a result of the Buenos Aires Convention of 1910, which required some statement of reservation of rights to grant international coverage in all the countries that were signatory to that convention. While it is commonplace to see it, this notice is now superfluous, as every country that is a member of the Buenos Aires Convention is also a member of the Berne Convention, which holds a copyright to be valid in all signatory states without any formality of notice. This phrase is sometimes still used even on some documents to which the original author does not retain all rights granted by copyright law, such as works released under a copyleft license. It is, however, only a habitual formality and is unlikely to have legal consequences.

Absence of a copyright notice does not mean that the work is not covered by copyright. The creator of an original work instantaneously possesses its copyright when that work is created through "mental labor" and "fixed" in tangible form. Thus, a natural copyright exists from the time a work is invented or created, regardless of whether it has been registered with a particular Copyright Office.

Since all countries have separate copyright laws, there is no such thing as an "international copyright". The Berne Convention, however, makes the copyright automatic in each signatory. Should copyright infringement litigation ensue, registration with the U.S. Copyright Office may affect the outcome.[citation needed]

“Poor Man’s copyright”
A widely circulated strategy to avoid the cost of copyright registration is referred to as the "poor man's copyright". It proposes that the creator send the work to himself in a sealed envelope by registered mail, using the postmark to establish the date. This technique has not been recognized by any United States court, and is dismissed as meaningless by the United States Copyright Office. However the UK Patent Office suggests it as one method of proving the originality of a work as of the postmark date.[7]

Exclusive rights
Several exclusive rights typically attach to the holder of a copyright:

- to produce copies or reproductions of the work and to sell those copies (including, typically, electronic copies)
to import or export the work
• to create derivative works (works that adapt the original work)
• to perform or display the work publicly
• to sell or assign these rights to others
• to transmit or display by means of digital audio transmission (XM Satellite Radio, Sirius)

The phrase "exclusive right" means that only the copyright holder is free to exercise the attendant rights, and others are prohibited using the work without the consent of the copyright holder. Copyright is often called a "negative right", as it serves to prohibit people (e.g. readers, viewers, or listeners, and primarily publishers and would be publishers) from doing something, rather than permitting people (e.g. authors) to do something. In this way it is similar to the unregistered design right in English law and European law. The rights of the copyright holder also permit him/her to not use or exploit their copyright for its duration. This means an author can choose to exploit their copyright for some of the duration and then not for the rest, vice versa, or entirely one or the other.

There is however a critique which rejects this assertion as being based on a philosophical interpretation of copyright law, and is not universally shared. There is also debate on whether copyright should be considered a property right or a moral right. Many argue that copyright does not exist merely to restrict third parties from publishing ideas and information, and that defining copyright purely as a negative right is incompatible with the public policy objective of encouraging authors to create new works and enrich the public domain.

The right to adapt a work means to transform the way in which the work is expressed. Examples include developing a stage play or film script from a novel; translating a short story; and making a new arrangement of a musical work.

**Limits and exceptions to copyright**

*Main article: Limitations and exceptions to copyright*

**Idea-expression dichotomy and the merger doctrine**

*Main article: Idea-expression divide*

Immanuel Kant in his 1785 essay *Von der Unrechtmäßigkeit des Büchernachdrucks* distinguishes the physical from the ideational, the thought involved from the book. This distinction is of critical importance to the near constant wrangling between publishers, other intermediaries, and the original, creative authors.
Copyright usually protects the expression of an idea, not the idea itself — in US jurisprudence this is called the idea/expression or fact/expression dichotomy. For example, if a writer has a general concept or idea for a television program, the law of copyright does not prohibit other writers from copying that general idea. However, if the writer develops the idea so that it constitutes a detailed storyline or plot, then that may be protected by copyright, notwithstanding that it is "idea" rather than "expression". Similarly, the translation of a literary work will constitute an infringement of copyright, notwithstanding that no element of the "expression" is directly copied.

Another example could be if a book is written describing a new way to organize books in a library, a copyright does not prohibit a reader from freely using and describing that concept to others; it is only the particular expression of that process as originally described that is covered by copyright. One might be able to obtain a patent for the method, but that is a different area of law. Compilations of facts or data may also be copyrighted, but such a copyright is thin; it only applies to the particular selection and arrangement of the included items, not to the particular items themselves. In some jurisdictions the contents of databases are expressly covered by statute.

In some cases, ideas may be capable of intelligible expression in only one or a limited number of ways. Therefore even the expression in these circumstances is not covered. In the United States this is known as the merger doctrine, because the expression is considered to be inextricably merged with the idea. Merger is often pleaded as an affirmative defense to charges of infringement. That doctrine is not necessarily accepted in other jurisdictions.

The first-sale doctrine and exhaustion of rights

Main articles: First-sale doctrine and Exhaustion of rights

Copyright law does not restrict the owner of a copy from reselling legitimately obtained copies of copyrighted works, provided that those copies were originally produced by or with the permission of the copyright holder. It is therefore legal, for example, to resell a copyrighted book or CD. In the United States this is known as the first-sale doctrine, and was established by the courts to clarify the legality of reselling books in second-hand bookstores. Some countries may have parallel importation restrictions that allow the copyright holder to control the aftermarket. This may mean for example that a copy of a book that does not infringe copyright in the country where it was printed does infringe copyright in a country into which it is imported for retailing. The first-sale doctrine is known as exhaustion of rights in other countries and is a principle which also applies, though somewhat differently, to patent and trademark rights. It is important to note that the first-sale doctrine permits the transfer of the particular legitimate
copy involved. It does not permit making or distributing additional copies.

In addition, copyright, in most cases, does not prohibit one from acts such as modifying, defacing, or destroying his or her own legitimately obtained copy of a copyrighted work, so long as duplication is not involved. However, in countries that implement moral rights, a copyright holder can in some cases successfully prevent the mutilation or destruction of a work that is publicly visible.

**Fair use and fair dealing**

*Main articles: Fair use and Fair dealing*

Copyright does not prohibit all copying or replication. In the United States, the fair use doctrine, codified by the Copyright Act of 1976 as 17 U.S.C. Section 107, permits some copying and distribution without permission of the copyright holder or payment to same. The statute does not clearly define fair use, but instead gives four non-exclusive factors to consider in a fair use analysis. Those factors are:

1. the purpose and character of your use
2. the nature of the copyrighted work
3. what amount and proportion of the whole work was taken, and
4. the effect of the use upon the potential market for or value of the copyrighted work.

In the United Kingdom and many other Commonwealth countries, a similar notion of fair dealing was established by the courts or through legislation. The concept is sometimes not well defined; however in Canada, private copying for personal use has been expressly permitted by statute since 1999. In Australia, the fair dealing exceptions under the Copyright Act 1968 (Cth) are a limited set of circumstances under which copyrighted material can be legally copied or adapted without the copyright holder’s consent. Fair dealing uses are research and study; review and critique; news reportage and the giving of professional advice (ie legal advice). Under current Australian law it is still a breach of copyright to copy, reproduce or adapt copyright material for personal or private use without permission from the copyright owner. Other technical exemptions from infringement may also apply, such as the temporary reproduction of a work in machine readable form for a computer.

In the United States the AHRA (Audio Home Recording Act Codified in Section 10, 1992) prohibits action against consumers making noncommercial recordings of music, in return for royalties on both media and devices plus mandatory copy-control mechanisms on recorders.
Section 1008. Prohibition on certain infringement actions

No action may be brought under this title alleging infringement of copyright based on the manufacture, importation, or distribution of a digital audio recording device, a digital audio recording medium, an analog recording device, or an analog recording medium, or based on the noncommercial use by a consumer of such a device or medium for making digital musical recordings or analog musical recordings.

Later acts amended US Copyright law so that for certain purposes making 10 copies or more is construed to be commercial, but there is no general rule permitting such copying. Indeed making one complete copy of a work, or in many cases using a portion of it, for commercial purposes will not be considered fair use. The Digital Millennium Copyright Act prohibits the manufacture, importation, or distribution of devices whose intended use, or only significant commercial use, is to bypass an access or copy control put in place by a copyright owner. An appellate court has held that fair use is not a defense to engaging in such distribution.

Transfer and licensing

A copyright, or aspects of it, may be assigned or transferred from one party to another. For example, a musician who records an album will often sign an agreement with a record company in which the musician agrees to transfer all copyright in the recordings in exchange for royalties and other considerations. The creator (and original copyright holder) benefits, or expects to, from production and marketing capabilities far beyond those of the author. In the digital age of music, music may be copied and distributed at minimal cost through the Internet, however the record industry attempts to provide promotion and marketing for the artist and his or her work so it can reach a much larger audience. A copyright holder need not transfer all rights completely, though many publishers will insist. Some of the rights may be transferred, or else the copyright holder may grant another party a non-exclusive license to copy and/or distribute the work in a particular region or for a specified period of time. A transfer or licence may have to meet particular formal requirements in order to be effective; see section 239 of the Australia Copyright Act 1968 (Cth). Under Australian law, it is not enough to pay for a work to be created in order to also own the copyright. The copyright itself must be expressly transferred in writing. Under the U.S. Copyright Act, a transfer of ownership in copyright must be memorialized in a writing signed by the transferor. For that purpose, ownership in copyright includes exclusive licenses of rights. Thus exclusive licenses, to be effective, must be granted in a written instrument signed by the grantor. No special form of transfer or grant is required. A simple document that identifies the work involved and the rights being granted is sufficient. Non-exclusive grants (often called non-
exclusive licenses) need not be in writing under U.S. law. They can be oral or even implied by the behavior of the parties. Transfers of copyright ownership, including exclusive licenses, may and should be recorded in the U.S. Copyright Office. (Information on recording transfers is available on the Office's web site.) While recording is not required to make the grant effective, it offers important benefits, much like those obtained by recording a deed in a real estate transaction.

Copyright may also be licensed. Some jurisdictions may provide that certain classes of copyrighted works be made available under a prescribed statutory license (e.g. musical works in the United States used for radio broadcast or performance). This is also called a compulsory license, because under this scheme, anyone who wishes to copy a covered work does not need the permission of the copyright holder, but instead merely files the proper notice and pays a set fee established by statute (or by an agency decision under statutory guidance) for every copy made. Failure to follow the proper procedures would place the copier at risk of an infringement suit. Because of the difficulty of following every individual work, copyright collectives or collecting societies and performing rights organizations (such as ASCAP, BMI, and SESAC have been formed to collect royalties for hundreds (thousands and more) works at once. Though this market solution bypasses the statutory license, the availability of the statutory fee still helps dictate the price per work collective rights organizations charge, driving it down to what avoidance of procedural hassle would justify.

Similar legal rights
Copyright law covers the creative or artistic expression of an idea. Patent law covers inventions. Trademark law covers distinctive signs which are used in relation to products or services as indicators of origin, as does (in a similar fashion), Trade dress. Registered designs law covers the look or appearance of a manufactured or functional article. Trade secret law covers secret or sensitive knowledge or information.

Although copyright and trademark laws are theoretically distinct, more than one type of them may cover the same item or subject matter. For example, in the case of the Mickey Mouse cartoon, the image and name of Mickey Mouse would be the subject of trademark legislation, while the cartoon itself would be subject to copyright. Titles and character names from books or movies may also be trademarked while the works from which they are drawn may qualify for copyright.

Another point of distinction is that a copyright (and a patent) is generally subject to a statutorily-determined term, whereas a trademark registration may remain in force indefinitely if the trademark is
periodically used and renewal fees continue to be duly paid to the relevant jurisdiction's trade marks office or registry. Once the term of a copyright has expired, the formerly copyrighted work enters the public domain and may be freely used or exploited by anyone. Courts in the United States and the United Kingdom have rejected the doctrine of a common law copyright. Public domain works should not be confused with works that are publicly available. Works posted in the internet for example, are publicly available, but are not generally in the public domain. Copying such works may therefore violate the author's copyright.

Useful articles

If a pictorial, graphic or sculptural work is a useful article, it is copyrighted only if its aesthetic features are separable from its utilitarian features. A useful article is an article having an intrinsic utilitarian function that is not merely to portray the appearance of the article or to convey information. The must be separable from the functional aspect to be copyrighted.

There are two primary approaches to the separability issue: physical separability and conceptual separability. Physical separability is the ability to take the aesthetic thing away from the functional thing. Conceptual separability can be found in several different ways. It may be present if the useful article is also shown to be appreciated for its aesthetic appeal or by the design approach, which is the idea that separability is only available if the designer is able to make the aesthetic choices that are unaffected by the functional considerations. A question may also be asked of whether an individual would think of the aesthetic aspects of the work being separate from the functional aspects.

There are several different tests available for conceptual separability. The first, the Primary Use test, asks how is the thing primarily used: art or function? The second, the Marketable as Art test, asks can the article be sold as art, whether functional or not. This test does not have much backing, as almost anything can be sold as art. The third test, Temporal Displacement, asks could an individual conceptualize the article as art without conceptualizing functionality at the same time. Finally, the Denicola test says that copyrightability should ultimately depend on the extent to which the work reflects the artistic expression inhibited by functional consideration. If something came to have a pleasing shape because there were functional considerations, the artistic aspect was constrained by those concerns.

Duration

Copyright subsists for a variety of lengths in different jurisdictions. The length of the term can depend on several factors, including the type of work (e.g. musical composition, novel), whether the work has been published or not, and whether the work was created by an individual or a corporation. In most of the world, the default length of copyright is the life of the author plus either 50 or 70 years. In the United States, the
term for most existing works is a fixed number of years after the date of creation or publication. Under most countries’ laws, copyrights expire at the end of the calendar year in question.

The length and requirements for copyright duration are subject to change by legislation, and since the early 20th century there have been a number of adjustments made in various countries, which can make determining the duration of a given copyright somewhat difficult. For example, the United States used to require copyrights to be renewed after 28 years to stay in force, and formerly required a copyright notice upon first publication to gain coverage. In Italy and France, there were post-wartime extensions that could increase the term by approximately 6 years in Italy and up to about 14 in France. Many countries have extended the length of their copyright terms (sometimes retroactively). International treaties establish minimum terms for copyrights, but individual countries may enforce longer terms than those.

In the United States, all books and other works published before 1923 have expired copyrights and are in the public domain. In addition, works published before 1964 that did not have their copyrights renewed 28 years after first publication year also are in the public domain, except that books originally published outside the US by non-Americans are exempt from this requirement, if they are still under copyright in their home country (see How Can I Tell Whether a Copyright Was Renewed for more details).

But if the intended exploitation of the work includes publication (or distribution of derivative work, such as a film based on a book protected by copyright) outside the U.S., the terms of copyright around the world must be considered. If the author has been dead more than 70 years, the work is in the public domain in most, but not all, countries. Some works are covered by copyright in Spain for 80 years after the author’s death.

In 1998 the length of a copyright in the United States was increased by 20 years under the The Copyright Term Extension Act. This legislation was strongly promoted by corporations which had valuable copyrights which would otherwise would have expired, and has been the subject of substantial criticism on this point.

As a curiosity, the famous work Peter Pan, or The Boy Who Wouldn’t Grow Up has a complex – and disputed – story of copyright expiry.

Typefaces
In the United States, the Copyright Office maintains that typeface designs are not covered by copyright, and it will not accept applications for their registration. See 37. C.F.R. § 202.1(e). However, if a design is novel and “non-obvious,” it may be covered by design patent. See, for example, U.S. Des. Patent No. 289,773, May 12, 1987, Charles A. Bigelow and Kris A. Holmes, inventors. Germany (in 1981) passed a special extension (Schriftzeichengesetz) to the design patent law.
(Geschmacksmustergesetz) for protecting them. This permits typefaces being registered as designs in Germany, too.

The United Kingdom (in 1989) has passed a law making typeface designs copyrightable. The British law also applies to designs produced before 1989.

**Accessible copies**

It is legal in several countries including Great Britain and the USA to produce alternative versions (for example, in large print or braille) of a copyrighted work to provide improved access to a work for blind and visually impaired persons without permission from the copyright holder.[8][9]
Market Segmentation for the Small Business

By Laura Lake, About.com


Market segmentation is one of the steps that goes into defining and targeting specific markets. It is the process of dividing a market into a distinct group of buyers that require different products or marketing mixes.

A key factor to success in today's market place is finding subtle differences to give a business the marketing edge. Businesses that target specialty markets will promote its products and services more effectively than a business aiming at the "average" customer.

Opportunities in marketing increase when segmented groups of clients and customers with varying needs and wants are recognized. Markets can be segmented or targeted using a variety of factor. The bases for segmenting consumer markets include:

- Demographical bases (age, family size, life cycle, occupation)
- Geographical bases (states, regions, countries)
- Behavior bases (product knowledge, usage, attitudes, responses)
- Psychographic bases (lifestyle, values, personality)

A business must analyze the needs and wants of different market segments before determining their own niche. To be effective in market segmentation keep the following things in mind:

- Segments or target markets should be accessible to the business
- Each segmented group must be large enough to provide a solid customer base.
- Each segmented group requires a separate marketing plan.

Large companies segment their markets by conducting extensive market research projects. This research is often too expensive for small businesses to invest in, but there are alternative ways for to a small business to segment their markets.
A small business can do the following to gain knowledge and information on how to segment their markets:

Use secondary date resources and qualitative research. You can use the following resources for external secondary data:

- Trade and association publications and experts
- Basic research publications
- External measurement services

Conduct informal factor and cluster analysis by:

- Watching key competitors marketing efforts and copying them.
- Talking to key trade buyers about new product introductions
- Conducting needs analysis from qualitative research with individuals and groups.

There are many reasons for dividing a marketing into smaller segments. Any time you suspect there are significant, measurable differences in your market you should consider market segmentation. By doing so you will make marketing easier, discover niche markets, and become more efficient with your marketing resources.
Market Basics for the Small Business

By Laura Lake, About.com


The essence of marketing is to understand your customers' needs and develop a plan that surrounds those needs. Let's face it anyone that has a business has a desire to grow their business. The most effective way to grow and expand your business is by focusing on organic growth.

You can increase organic growth in four different ways. They include:

- Acquiring more customers
- Persuading each customer to buy more products
- Persuading each customer to buy more expensive products or up selling each customer
- Persuading each customer to buy more profitable products

All four of these increase your revenue and profit. Let me encourage you to focus on the first which is to acquire more customers. Why? Because by acquiring more customers you increase your customer base and your revenues then come from a larger base.

How can you use marketing to acquire more customers?

- Spend time researching and create a strategic marketing plan.
- Guide your product development to reach out to customers you aren't currently attracting.
- Price your products and services competitively.
- Develop your message and materials based on solution marketing.

The Importance of a Target Market in Small Business

When it comes to your customers keep in mind the importance of target marketing. The reason this is important is that only a proportion of the population is likely to purchase any products or service. By taking time pitch your sales and marketing efforts to the correct niche market you will be more productive and not waste your efforts or time.

It's important to consider your virtual segmentation by selecting particular verticals to present your offerings to. Those verticals will have
the particular likelihood of purchasing your products and services. Again, this saves you from wasting valuable time and money.

**Small Business Marketing and Large Business Marketing are Different**

If you are like the majority of small business owners your marketing budget is limited. The most effective way to market a small business is to create a well rounded program that combines sales activities with your marketing tactics. Your sales activities will not only decrease your out-of-pocket marketing expense but it also adds the value of interacting with your prospective customers and clients. This interaction will provide you with research that is priceless.

Small businesses typically have a limited marketing budget if any at all. Does that mean you can't run with the big dogs? Absolutely not. It just means you have to think a little more creatively. How about launching your marketing campaign by doing one of the following:

- Call your vendors or associates and ask them to participate with you in co-op advertising.
- Take some time to send your existing customers’ referrals and buying incentives.
- Have you thought about introducing yourself to the media? Free publicity has the potential to boost your business. By doing this you position yourself as an expert in your field.
- Invite people into your place of business by piggybacking onto an event. Is there a concert coming to town, are you willing to sell those tickets? It could mean free radio publicity. If that is not your cup of tea, how about a walkathon that is taking place in your area, why not be a public outreach and distribute their material?

When you do spend money on marketing, do not forget to create a way to track those marketing efforts. You can do this by coding your ads, using multiple toll-free telephone numbers, and asking prospects where they heard about you. This enables you to notice when a marketing tactic stops working. You can then quickly replace it with a better choice or method.

**Getting Started with Small Business Marketing**

By being diligent in your marketing and creating an easy strategy such as holding yourself accountable to contact ten customers or potential customers daily five days a week you will see your business grow at an exceptional rate. The great thing is it will not take a large marketing budget to make it happen.
Marketing plan

From Wikipedia, the free encyclopedia


A marketing plan is a written document that details the necessary actions to achieve one or more marketing objectives. It can be for a product or service, a brand, or a product line. Marketing plans cover between one and five years. A marketing plan may be part of an overall business plan. Solid marketing strategy is the foundation of a well-written marketing plan. While a marketing plan contains a list of actions, a marketing plan without a sound strategic foundation is of little use.

The marketing planning process

Marketing process can be realized by the marketing mix in step 4. The last step in the process is the marketing controlling. In most organizations, "strategic planning" is an annual process, typically covering just the year ahead. Occasionally, a few organizations may look at a practical plan which stretches three or more years ahead.

To be most effective, the plan has to be formalized, usually in written form, as a formal "marketing plan." The essence of the process is that it moves from the general to the specific, from the overall objectives of the organization down to the individual action plan for a part of one marketing program. It is also an interactive process, so that the draft output of each stage is checked to see what impact it has on the earlier stages, and is amended.

Marketing planning aims and objectives

Behind the corporate objectives, which in themselves offer the main context for the marketing plan, will lie the "corporate mission," which in turn provides the context for these corporate objectives. In a sales-oriented organization, the marketing planning function designs incentive pay plans to not only motivate and reward frontline staff fairly but also to align marketing activities with corporate mission. bn

This "corporate mission" can be thought of as a definition of what the organization is, of what it does: "Our business is ...". This definition should not be too narrow, or it will constrict the development of the organization; a too rigorous concentration on the view that "We are in the business of making meat-scales," as IBM was during the early 1900s, might have limited its subsequent development into other areas. On the other hand, it should not be too wide or it will become meaningless;
"We want to make a profit" is not too helpful in developing specific plans. Abell suggested that the definition should cover three dimensions: "customer groups" to be served, "customer needs" to be served, and "technologies" to be utilized. Thus, the definition of IBM's "corporate mission" in the 1940s might well have been: "We are in the business of handling accounting information [customer need] for the larger US organizations [customer group] by means of punched cards [technology]."

Perhaps the most important factor in successful marketing is the "corporate vision." Surprisingly, it is largely neglected by marketing textbooks, although not by the popular exponents of corporate strategy - indeed, it was perhaps the main theme of the book by Peters and Waterman, in the form of their "Superordinate Goals." "In Search of Excellence" said: "Nothing drives progress like the imagination. The idea precedes the deed." If the organization in general, and its chief executive in particular, has a strong vision of where its future lies, then there is a good chance that the organization will achieve a strong position in its markets (and attain that future). This will be not least because its strategies will be consistent and will be supported by its staff at all levels. In this context, all of IBM's marketing activities were underpinned by its philosophy of "customer service," a vision originally promoted by the charismatic Watson dynasty. The emphasis at this stage is on obtaining a complete and accurate picture.

A "traditional" - albeit product-based - format for a "brand reference book" (or, indeed, a "marketing facts book") was suggested by Godley more than three decades ago:

1. Financial data—Facts for this section will come from management accounting, costing and finance sections.
2. Product data—From production, research and development.
3. Sales and distribution data - Sales, packaging, distribution sections.
4. Advertising, sales promotion, merchandising data - Information from these departments.
5. Market data and miscellany - From market research, who would in most cases act as a source for this information. His sources of data, however, assume the resources of a very large organization. In most organizations they would be obtained from a much smaller set of people (and not a few of them would be generated by the marketing manager alone).

It is apparent that a marketing audit can be a complex process, but the aim is simple: "it is only to identify those existing (external and internal) factors which will have a significant impact on the future plans of the company." It is clear that the basic material to be input to the marketing
audit should be comprehensive. Accordingly, the best approach is to accumulate this material continuously, as and when it becomes available; since this avoids the otherwise heavy workload involved in collecting it as part of the regular, typically annual, planning process itself - when time is usually at a premium.

Even so, the first task of this annual process should be to check that the material held in the current facts book or facts files actually is comprehensive and accurate, and can form a sound basis for the marketing audit itself.

The structure of the facts book will be designed to match the specific needs of the organization, but one simple format - suggested by Malcolm McDonald - may be applicable in many cases. This splits the material into three groups:

1. **Review of the marketing environment.** A study of the organization's markets, customers, competitors and the overall economic, political, cultural and technical environment; covering developing trends, as well as the current situation.

2. **Review of the detailed marketing activity.** A study of the company's marketing mix; in terms of the 7 Ps - (see below)

3. **Review of the marketing system.** A study of the marketing organization, marketing research systems and the current marketing objectives and strategies. The last of these is too frequently ignored. The marketing system itself needs to be regularly questioned, because the validity of the whole marketing plan is reliant upon the accuracy of the input from this system, and 'garbage in, garbage out' applies with a vengeance.

   - **Portfolio planning.** In addition, the coordinated planning of the individual products and services can contribute towards the balanced portfolio.

   - **80:20 rule.** To achieve the maximum impact, the marketing plan must be clear, concise and simple. It needs to concentrate on the 20 percent of products or services, and on the 20 percent of customers, which will account for 80 percent of the volume and 80 percent of the profit.

   - **7 P's: Product, Place, Price and Promotion, Physical Environment, People, Process.** The 7 P's can sometimes divert attention from the customer, but the framework they offer can be very useful in building the action plans.
It is only at this stage (of deciding the marketing objectives) that the active part of the marketing planning process begins. This next stage in marketing planning is indeed the key to the whole marketing process. The "marketing objectives" state just where the company intends to be at some specific time in the future. James Quinn succinctly defined objectives in general as: Goals (or objectives) state what is to be achieved and when results are to be accomplished, but they do not state 'how' the results are to be achieved. They typically relate to what products (or services) will be where in what markets (and must be realistically based on customer behavior in those markets). They are essentially about the match between those "products" and "markets." Objectives for pricing, distribution, advertising and so on are at a lower level, and should not be confused with marketing objectives. They are part of the marketing strategy needed to achieve marketing objectives. To be most effective, objectives should be capable of measurement and therefore "quantifiable." This measurement may be in terms of sales volume, money value, market share, percentage penetration of distribution outlets and so on. An example of such a measurable marketing objective might be "to enter the market with product Y and capture 10 percent of the market by value within one year." As it is quantified it can, within limits, be unequivocally monitored, and corrective action taken as necessary.

The marketing objectives must usually be based, above all, on the organization’s financial objectives; converting these financial measurements into the related marketing measurements. He went on to explain his view of the role of "policies," with which strategy is most often confused: "Policies are rules or guidelines that express the 'limits' within which action should occur." Simplifying somewhat, marketing strategies can be seen as the means, or "game plan," by which marketing objectives will be achieved and, in the framework that we have chosen to use, are generally concerned with the 8 P’s. Examples are:

1. Price - The amount of money needed to buy products
2. Product - The actual product
3. Promotion (advertising) - Getting the product known
4. Placement - Where the product is located
5. People - Represent the business
6. Physical environment - The ambiance, mood, or tone of the environment
7. Process - How do people obtain your product
8. Packaging - How the product will be protected
Starting Your Own Business A Self-Study Guide

(Note: At GCSE the 4 P’s are Place, Promotion, Product and Price and the "secret" 5th P is Packaging, but which applies only to physical products, not services usually, and mostly those sold to individual consumers)

In principle, these strategies describe how the objectives will be achieved. The 7 P’s are a useful framework for deciding how the company’s resources will be manipulated (strategically) to achieve the objectives. It should be noted, however, that they are not the only framework, and may divert attention from the real issues. The focus of the strategies must be the objectives to be achieved - not the process of planning itself. Only if it fits the needs of these objectives should you choose, as we have done, to use the framework of the 7 P’s. The strategy statement can take the form of a purely verbal description of the strategic options which have been chosen. Alternatively, and perhaps more positively, it might include a structured list of the major options chosen.

One aspect of strategy which is often overlooked is that of "timing." Exactly when it is the best time for each element of the strategy to be implemented is often critical. Taking the right action at the wrong time can sometimes be almost as bad as taking the wrong action at the right time. Timing is, therefore, an essential part of any plan; and should normally appear as a schedule of planned activities. Having completed this crucial stage of the planning process, you will need to re-check the feasibility of your objectives and strategies in terms of the market share, sales, costs, profits and so on which these demand in practice. As in the rest of the marketing discipline, you will need to employ judgment, experience, market research or anything else which helps you to look at your conclusions from all possible angles.

**Detailed plans and programs**

At this stage, you will need to develop your overall marketing strategies into detailed plans and program. Although these detailed plans may cover each of the 7 P’s, the focus will vary, depending upon your organization’s specific strategies. A product-oriented company will focus its plans for the 7 P’s around each of its products. A market or geographically oriented company will concentrate on each market or geographical area. Each will base its plans upon the detailed needs of its customers, and on the strategies chosen to satisfy these needs.

Again, the most important element is, indeed, that of the detailed plans, which spell out exactly what programs and individual activities will take place over the period of the plan (usually over the next year). Without these specified - and preferably quantified - activities the plan cannot be monitored, even in terms of success in meeting its objectives. It is these programs and activities which will then constitute the "marketing" of the organization over the period. As a result, these detailed marketing
programs are the most important, practical outcome of the whole planning process. These plans must therefore be:

- **Clear** - They should be an unambiguous statement of 'exactly' what is to be done.

- **Quantified** - The predicted outcome of each activity should be, as far as possible, quantified, so that its performance can be monitored.

- **Focused** - The temptation to proliferate activities beyond the numbers which can be realistically controlled should be avoided. The 80:20 Rule applies in this context too.

- **Realistic** - They should be achievable.

- **Agreed** - Those who are to implement them should be committed to them, and agree that they are achievable. The resulting plans should become a working document which will guide the campaigns taking place throughout the organization over the period of the plan. If the marketing plan is to work, every exception to it (throughout the year) must be questioned; and the lessons learned, to be incorporated in the next year's planning.

**Content of the marketing plan**

A marketing plan for a small business typically includes:

1. Description of the product or service, including special features
2. Marketing budget, including the advertising and promotional plan
3. Description of the business location, including advantages and disadvantages for marketing
4. Pricing strategy
5. Market Segmentation

**Medium-sized and large organizations**

The main contents of a marketing plan are:[4]

1. **Executive Summary**
2. **Situational Analysis**
3. **Opportunities / Issue Analysis - SWOT Analysis**
4. **Objectives**

5. **Strategy**

6. **Action Program** (the operational marketing plan itself for the period under review)

7. **Financial Forecast**

8. **Controls**

In detail, a complete marketing plan typically includes:

1. **Title page**

2. **Executive Summary**

3. **Current Situation - Macroenvironment**
   - economy
   - legal
   - government
   - technology
   - ecological
   - sociocultural
   - supply chain

4. **Current Situation - Market Analysis**
   - market definition
   - market size
   - market segmentation
   - industry structure and strategic groupings
   - Porter 5 forces analysis
   - competition and market share
   - competitors' strengths and weaknesses
   - market trends

5. **Current Situation - Consumer Analysis**
   - nature of the buying decision
   - participants
6. Current Situation - Internal
   - company resources
     - financial
     - people
     - time
     - skills
   - objectives
     - mission statement and vision statement
     - corporate objectives
     - financial objective
     - marketing objectives
     - long term objectives
     - description of the basic business philosophy
   - corporate culture

7. Summary of Situation Analysis
   - external threats
   - external opportunities
   - internal strengths
   - internal weaknesses
   - critical success factors in the industry
   - our sustainable competitive advantage

8. Marketing research
   - information requirements
   - research methodology
   - research results
9. Marketing Strategy - Product
   - product mix
   - product strengths and weaknesses
     - perceptual mapping
   - product life cycle management and new product development
   - Brand name, brand image, and brand equity
   - the augmented product
   - product portfolio analysis
     - B.C.G. Analysis
     - contribution margin analysis
     - G.E. Multi Factoral analysis
     - Quality Function Deployment

10. Marketing Strategy - segmented marketing actions and market share objectives
    - by product,
    - by customer segment,
    - by geographical market,
    - by distribution channel.

11. Marketing Strategy - Price
    - pricing objectives
    - pricing method (eg.: cost plus, demand based, or competitor indexing)
    - pricing strategy (eg.: skimming, or penetration)
    - discounts and allowances
    - price elasticity and customer sensitivity
    - price zoning
    - break even analysis at various prices

12. Marketing Strategy - promotion
    - promotional goals
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- **promotional mix**
- **advertising** reach, frequency, flights, theme, and media
- **sales force** requirements, techniques, and management
- **sales promotion**
- **publicity** and **public relations**
- electronic promotion (eg.: Web, or telephone)
- **word of mouth marketing** (buzz)
- **viral marketing**

13. **Marketing Strategy - Distribution**
- geographical coverage
- distribution channels
- physical distribution and logistics
- electronic distribution

14. **Implementation**
- personnel requirements
  - assign responsibilities
  - give incentives
  - training on selling methods
- financial requirements
- management information systems requirements
- month-by-month agenda
  - PERT or critical path analysis
- monitoring results and benchmarks
- adjustment mechanism
- contingencies (What if's)

15. **Financial Summary**
- assumptions
- pro-forma monthly income statement
- contribution margin analysis
Measurement of progress

The final stage of any marketing planning process is to establish targets (or standards) so that progress can be monitored. Accordingly, it is important to put both quantities and timescales into the marketing objectives (for example, to capture 20 percent by value of the market within two years) and into the corresponding strategies.

Changes in the environment mean that the forecasts often have to be changed. Along with these, the related plans may well also need to be changed. Continuous monitoring of performance, against predetermined targets, represents a most important aspect of this. However, perhaps even more important is the enforced discipline of a regular formal review. Again, as with forecasts, in many cases the best (most realistic) planning cycle will revolve around a quarterly review. Best of all, at least in terms of the quantifiable aspects of the plans, if not the wealth of backing detail, is probably a quarterly rolling review - planning one full year ahead each new quarter. Of course, this does absorb more planning resource; but it also ensures that the plans embody the latest information, and - with attention focused on them so regularly - forces both the plans and their implementation to be realistic.

Plans only have validity if they are actually used to control the progress of a company: their success lies in their implementation, not in the writing'.
Appendices
Appendix A: Partnership Agreements (samples)


Agreement A

PARTNERSHIP AGREEMENT

This PARTNERSHIP AGREEMENT is made on ____________, 20__ between
__________________________________________ and
__________________________________________.

1. NAME AND BUSINESS. The parties hereby form a partnership under the name of
__________________________________________ to conduct a
__________________________________________. The principal office of the business shall be in
__________________________________________.

2. TERM. The partnership shall begin on ____________, 20__, and shall continue until terminated as herein provided.

3. CAPITAL. The capital of the partnership shall be contributed in cash by the partners as follows: A separate capital account shall be maintained for each partner. Neither partner shall withdraw any part of his capital account. Upon the demand of either partner, the capital accounts of the partners shall be maintained at all times in the proportions in which the partners share in the profits and losses of the partnership.

4. PROFIT AND LOSS. The net profits of the partnership shall be divided equally between the partners and the net losses shall be borne equally by them. A separate income account shall be maintained for each partner. Partnership profits and losses shall be charged or credited to the separate income account of each partner. If a partner has no credit balance in his income account, losses shall be charged to his capital account.

5. SALARIES AND DRAWINGS. Neither partner shall receive any salary for services rendered to the partnership.
Each partner may, from time to time, withdraw the credit balance in his income account.

6. **INTEREST.** No interest shall be paid on the initial contributions to the capital of the partnership or on any subsequent contributions of capital.

7. **MANAGEMENT DUTIES AND RESTRICTIONS.** The partners shall have equal rights in the management of the partnership business, and each partner shall devote his entire time to the conduct of the business. Without the consent of the other partner neither partner shall on behalf of the partnership borrow or lend money, or make, deliver, or accept any commercial paper, or execute any mortgage, security agreement, bond, or lease, or purchase or contract to purchase, or sell or contract to sell any property for or of the partnership other than the type of property bought and sold in the regular course of its business.

8. **BANKING.** All funds of the partnership shall be deposited in its name in such checking account or accounts as shall be designated by the partners. All withdrawals are to be made upon checks signed by either partner.

9. **BOOKS.** The partnership books shall be maintained at the principal office of the partnership, and each partner shall at all times have access thereto. The books shall be kept on a fiscal year basis, commencing ________ and ending ________, and shall be closed and balanced at the end of each fiscal year. An audit shall be made as of the closing date.

10. **VOLUNTARY TERMINATION.** The partnership may be dissolved at any time by agreement of the partners, in which event the partners shall proceed with reasonable promptness to liquidate the business of the partnership. The partnership name shall be sold with the other assets of the business. The assets of the partnership business shall be used and distributed in the following order: (a) to pay or provide for the payment of all partnership liabilities and liquidating expenses and obligations; (b) to equalize the income accounts of the partners; (c) to discharge the balance of the income accounts of the partners; (d) to equalize the capital accounts of the partners; and (e) to discharge the balance of the capital accounts of the partners.

11. **DEATH.** Upon the death of either partner, the surviving partner shall have the right either to purchase the interest of the decedent in the partnership or to terminate and liquidate the partnership business. If the surviving partner elects to purchase the decedent's interest, he shall serve notice in
writing of such election, within three months after the death of the decedent, upon the executor or administrator of the decedent, or, if at the time of such election no legal representative has been appointed, upon any one of the known legal heirs of the decedent at the last-known address of such heir. (a) If the surviving partner elects to purchase the interest of the decedent in the partnership, the purchase price shall be equal to the decedent's capital account as at the date of his death plus the decedent's income account as at the end of the prior fiscal year, increased by his share of partnership profits or decreased by his share of partnership losses for the period from the beginning of the fiscal year in which his death occurred until the end of the calendar month in which his death occurred, and decreased by withdrawals charged to his income account during such period. No allowance shall be made for goodwill, trade name, patents, or other intangible assets, except as those assets have been reflected on the partnership books immediately prior to the decedent's death; but the survivor shall nevertheless be entitled to use the trade name of the partnership. (b) Except as herein otherwise stated, the procedure as to liquidation and distribution of the assets of the partnership business shall be the same as stated in paragraph 10 with reference to voluntary termination.

12. ARBITRATION. Any controversy or claim arising out of or relating to this Agreement, or the breach hereof, shall be settled by arbitration in accordance with the rules, then obtaining, of the American Arbitration Association, and judgment upon the award rendered may be entered in any court having jurisdiction thereof.

Executed this ______________ day of _________________, 20_____ in _____________________ [city], _____________________ [state].

________________________________________________

________________________________________________
Agreement B

This Partnership Agreement is made on [Insert Date] between [Insert Name of Party 1] and [Insert Name of Party 2].

1. Name and Business
   The parties hereby form a partnership under the name of [Insert Business Name] to produce [Insert Business Product/Service]. The principal office of the business shall be [Insert Address].

2. Term
   The partnership shall begin on [Insert Date], and shall continue until terminated.

3. Capital
   The capital of the partnership shall be contributed in cash by the partners as follows:
   
   o A separate capital account shall be maintained for each partner.
   
   o Neither partner shall withdraw any part of their capital account.
   
   o Upon the demand of either partner, the capital accounts of the partners shall be maintained at all times in the proportions in which the partners share in the profits and losses of the partnership.

4. Profit and Loss
   The net profits of the partnership shall be divided equally between the partners and the net losses shall be borne equally by them. A separate income account shall be maintained for each partner. Partnership profits and losses shall be charged or credited to the separate income account of each partner. If a partner has no credit balance in their income account, losses shall be charged to their capital account.

5. Salaries and Withdrawals
   Neither partner shall receive any salary for services rendered to the partnership. Each partner may, from time to time, withdraw the credit balance in their income account.

6. Interest
   No interest shall be paid on the initial contributions to the
starting your own business a self-study guide

7. Management Duties and Restrictions
The partners shall have equal rights in the management of the partnership business, and each partner shall devote their entire time to the conduct of the business. Without the consent of the other partner neither partner shall on behalf of the partnership borrow or lend money, or make, deliver, or accept any commercial paper, or execute any mortgage, security agreement, bond, or lease, or purchase or contract to purchase, or sell or contract to sell any property for or of the partnership other than the type of property bought and sold in the regular course of its business.

8. Banking
All funds of the partnership shall be deposited in its name in such checking account or accounts as shall be designated by the partners. All withdrawals therefrom are to be made upon checks signed by either partner.

9. Books
The partnership books shall be maintained at the principal office of the partnership, and each partner shall at all times have access thereto. The books shall be kept on a fiscal year basis, and shall be closed and balanced at the end of each fiscal year. An audit shall be made as of the closing date.

10. Voluntary Termination
The partnership may be dissolved at any time by agreement of the partners, in which event the partners shall proceed with reasonable promptness to liquidate the business of the partnership. The partnership name shall be sold with the other assets of the business. The assets of the partnership business shall be used and distributed in the following order:

(a) to pay or provide for the payment of all partnership liabilities and liquidating expenses and obligations;

(b) to equalize the income accounts of the partners;

(c) to discharge the balance of the income accounts of the partners;

(d) to equalize the capital accounts of the partners; and

(e) to discharge the balance of the capital accounts of the partners.
11. **Death**
Upon the death of either partner, the surviving partner shall have the right either to purchase the interest of the decedent in the partnership or to terminate and liquidate the partnership business. If the surviving partner elects to purchase the decedent's interest, he shall serve notice in writing of such election, within three months after the death of the decedent, upon the executor or administrator of the decedent, or, if at the time of such election no legal representative has been appointed, upon any one of the known legal heirs of the decedent at the last-known address of such heir.

(a) If the surviving partner elects to purchase the interest of the decedent in the partnership, the purchase price shall be equal to the decedent's capital account as at the date of their death plus the decedent's income account as at the end of the prior fiscal year, increased by their share of partnership profits or decreased by their share of partnership losses for the period from the beginning of the fiscal year in which their death occurred until the end of the calendar month in which their death occurred, and decreased by withdrawals charged to their income account during such period. No allowance shall be made for goodwill, trade name, patents, or other intangible assets, except as those assets have been reflected on the partnership books immediately prior to the decedent's death; but the survivor shall nevertheless be entitled to use the trade name of the partnership.

(b) Except as herein otherwise stated, the procedure as to liquidation and distribution of the assets of the partnership business shall be the same as stated in paragraph 10 with reference to voluntary termination.

12. **Arbitration**
Any controversy or claim arising out of or relating to this Agreement, or the breach hereof, shall be settled by arbitration in accordance with the rules, then obtaining, of the American Arbitration Association, and judgment upon the award rendered may be entered in any court having jurisdiction thereof. In witness whereof the parties have signed this Agreement.

Executed this ______________ day of ______________, [Insert Year] in [Insert City, State].
Appendix B: Business Plans Templates

Template A

The Business Plan

for

of

Business Owner:

Date:

___________________________
1. **The Business Plan**

1.1 The business I am in (or hope to be):

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

1.2 The objectives of the business are:

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________
1.3 The goods and services to be provided are:

___________________________________________________________

___________________________________________________________

___________________________________________________________

___________________________________________________________
2. **The Market**

2.1 My target market is:

____________________________________________________________________

____________________________________________________________________

____________________________________________________________________

2.2 The profile of the market is:

____________________________________________________________________

____________________________________________________________________

____________________________________________________________________

2.3 Why these people will need the product or service I offer:

____________________________________________________________________

____________________________________________________________________
2.4 The state of the market at present is:

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

2.5 My major competitors are:

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

2.6 The key features of my competitors are:

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________
2.7 I have chosen to operate the business from the following location:

____________________________________________________________________

____________________________________________________________________

____________________________________________________________________

2.8 The reason for this choice is:

____________________________________________________________________

____________________________________________________________________

____________________________________________________________________

2.9 The features and benefits that will make my product or service unique are:

____________________________________________________________________

____________________________________________________________________

____________________________________________________________________
2.10 The sales I expect to generate are:

___________________________________________________________

___________________________________________________________

___________________________________________________________

2.11 I propose to sell my products or service by:

___________________________________________________________

___________________________________________________________

___________________________________________________________

2.12 I propose to promote my products or services by:

___________________________________________________________

___________________________________________________________
3. **The People**

3.1 The following employees will be required for the business:

___________________________________________________________

___________________________________________________________

___________________________________________________________

3.2 They will need the following skills:

___________________________________________________________

___________________________________________________________

___________________________________________________________

3.3 The costs of these employees are:

___________________________________________________________

___________________________________________________________

___________________________________________________________
4. The Business Structure

4.1 I have chosen to operate the business as:

___________________________________________________________

___________________________________________________________

___________________________________________________________

4.2 I have chosen this structure for the following reasons:

___________________________________________________________

___________________________________________________________

___________________________________________________________

4.3 The owners of the business are:

Name ________________________________________________

Address _____________________________________________
Role

Name

Address

Role

Name

Address

Role
5. **Equipment and Assets**

The following items will be required for the business.

5.1 Accommodation:

_________________________________________________________________

_________________________________________________________________

_________________________________________________________________

Cost: ______________________________________

5.2 Plant and equipment:

_________________________________________________________________

_________________________________________________________________

_________________________________________________________________

Cost: ______________________________________
5.3 Transport:

___________________________________________________________

___________________________________________________________

___________________________________________________________

Cost: ______________________________

5.5 TOTAL COST: ______________________________
6. **Operating Expenses**

The estimated operating expenses for the first year are:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock</td>
<td></td>
</tr>
<tr>
<td>Advertising</td>
<td></td>
</tr>
<tr>
<td>Rent</td>
<td></td>
</tr>
<tr>
<td>Licences</td>
<td></td>
</tr>
<tr>
<td>Utilities</td>
<td></td>
</tr>
<tr>
<td>Transport: Maintenance</td>
<td></td>
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<tr>
<td>&quot;</td>
<td></td>
</tr>
<tr>
<td>&quot; Running</td>
<td></td>
</tr>
<tr>
<td>Repairs &amp; maintenance</td>
<td></td>
</tr>
<tr>
<td>Wages</td>
<td></td>
</tr>
<tr>
<td>Printing/stationery/postage</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td></td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td></td>
</tr>
</tbody>
</table>
7. **Profit & Loss Forecast**

In the first year I expect:

Sales  
$ 

Less  Cost of goods sold  
$ 

---

Equals:  Gross profit  
$ 

Less  Expenses  
$ 

---

Equals:  *Net Profit /Loss*  $ 

---
Template B

Business Plan

ENTER YOUR BUSINESS NAME

*Enter your name*

November 4, 2010
### SECTION 1: THE BUSINESS PROFILE

**Description of My Business**
Describe your product or service.

**Targeted Market and Customers**
Describe your customer profile and why customers want or need your product or service.

**Growth Trends In This Business**
Is the market for your product or service growing or shrinking?

**Pricing Power**
Explain the unique qualities or circumstances concerning your product or service that will enable you to maintain profitable pricing.

### SECTION 2: THE VISION AND THE PEOPLE

Describe convincingly that you are passionately committed to your new business and have the realism to make inevitable hard choices.
### THE PEOPLE

**Work Experience Related to My Intended Business**
Describe your work experience in the business you plan to start including a list of your skills and knowledge, which will be required in your business.

**Personal Background and Education Credentials**
Describe yourself, including your education.

### SECTION 3: COMMUNICATIONS

**Computer and Communications Tools**
(Session 3): Furnish a tabulation of each piece of equipment you intend to use including a description and the budget for each. You can use the following as a guide.

**Resource Requirements:**

**Communications**
Enter a description and budget of all communications equipment.

**Telephones**
Enter a description and budget for all telephone equipment.

**Pagers**
Enter a description and budget for pagers.

**Facsimile**
Enter a description and budget for all fax equipment.

**Computers**
Enter a description and budget for all computer equipment.

**Internet**
Enter a description and budget for necessary Internet access and providers.
**SECTION 4: ORGANIZATION**

**Business Organization**

Explain the form of business organization you intend to use and why it is best for your business.

**Professional Consultants**

List the names of your lawyer, accountant, insurance agent and any other professionals.

**Licenses**

List what licenses you will require to go into business.

---

**SECTION 5: LICENSES, PERMITS AND BUSINESS NAMES**

**Due Diligence Procedures for Licenses, Permits and Business Names (Session 14):**

**List the following:**

- **DBA:** List the name you intend to do business as

- **Zoning:** Indicate if the zoning if appropriate for your intended office location

- **Licenses:** List the appropriate licenses you will need at the local, state, and federal level

  - **Local:**

  - **State:**

  - **Federal:**

- **Trademark:** Indicate your trademark intentions if any exist
**Sellers Permit:** List any sellers permits that you may need

**EIN:** Indicate if you will obtain an employers identification number

### SECTION 6: INSURANCE

**Insurance**
List the forms of insurance coverage including costs are anticipated.

### SECTION 7: PREMISES

**Location Criteria**
Outline your location criteria.
- space requirements
- future requirements
- site analysis study if needed (attach)
- demographic study if needed (attach)
- lease check-off list (attach)
- estimated occupancy cost as a % of sales
- zoning and use approvals

### SECTION 8: ACCOUNTING AND CASH FLOW

**Accounting**
Furnish, as a separate exhibit of your starting balance sheet and projected income statements for the first six months to one year.

**Cash Flow Planning**
Provide a separate exhibit of your one year cash flow analysis including estimated sales, all costs and capital investments.

Provide a checklist of all expense items for input into your cash flow projection.
### Analysis of Costs
What are all of my costs: fixed, variable, product, delivery, etc.

### Internal Controls
Explain your: Intended internal controls and cash controls, check signing policy, strategy for controlling shrinkage and dishonesty and control of incoming merchandise.

### SECTION 9: FINANCING
**Financing Strategy**
Provide a chart or spreadsheet showing all of the sources of your start-up capital. Explain any government assistance or loan guarantee programs you intend to apply for.

If your business is for use with potential lenders, include a cash flow projection and projected income statements to show sources of repayment of loans. Be conservative in your forecasts.

List your sources of referrals to lending institutions. (Your accountant, etc.)

### SECTION 10: MARKETING
**Marketing Plan**
Describe your overall marketing and sales strategy including how you plan to get and retain customers.

**Advertising and Promotion Plans**
Describe your plans and budgets for advertising and promotions.

**Purchasing and Inventory Control**
See “how to buy” checklist.
### Training Policies
Describe your plans for hiring and training your sales associates.

### The Competition
Describe your strongest competitors and how you intend to compete.

### How I Plan to Take Advantage of Competitors Weak Points
List your competitor's shortcomings and how you can capitalize on them.

### SECTION 11: GROWTH PROGRAM

#### Expansion
Describe your growth: You might include development of profitable pilot operation, sources of financing, cash flow, accounting system in place, incentive compensation plan for managers, benefits package and policies, economics of scale.

#### Handling Major Problems
Describe scenarios of adverse conditions and how you intend to respond to them. For example how you would plan to handle a 25% reduction in sales, or new competitions, etc.

Prepare a cash flow projection based on lowered expectations and show how and where you would reduce costs to maintain liquidity.

### SECTION 12: MANAGING EMPLOYEES
Describe the services to be provided by your Payroll Service Provider and identify the provider.

Include copies of job descriptions for all employees you intend to hire.
Include a copy of the job application form and screening procedures you intend to use.

Provide a copy of your intended benefits package.

Provide a copy of your employee handbook.

Outline your initial and ongoing training programs for employees.

Identify the labor attorney who will be advising you on employee matters.

**SECTION 13: HOME BASED BUSINESS ISSUES**

**Factors in Selecting the Business**

Describe your considerations for selecting your home business and list:

1. Your experience in the business
2. Why appropriate for home based
3. Your utilization of Internet and communications tools
4. Home based zoning and licensing required
5. Your competition

**The Home Based Business Format**

Describe if the business is part-time (moonlighting) or full time:

1. If a full time business describe your preparations before quitting your job
   (see check list in session)
### Conflict of interest management

If business is part-time describe your conflict of interest policy and compartmentalization of job and business.

### Operating personnel

Describe the personnel who will be involved in operating the business including any family members. Describe participation and responsibilities.