

Entrepreneurship

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 - Small Trust Company, Federal Land Bank, McCaw Cellular Communications (AT&T Wireless), Non-profit, Nextel Communications, Voyager.net, Owned a business consulting company, BIGGBY COFFEE (VP of Finance)
 - Budget Analyst, Financial Analyst, Business Manager, Controller, Director of Market Planning and Analysis, Director of Finance, Chief Financial Officer, Chief Operating Officer

What is the Entrepreneurial Process?

Aspects of the Entrepreneurial Process

| Identify and Evaluate the Opportunity | Develop Business Plan | Resources Required | Manage the Enterprise |
|--|--|--|--|
| Opportunity assessment | Title page | Determine resources needed | Develop management style |
| Creation and length of opportunity | Table of Contents | Determine existing resources | Understand key variables for success |
| Real and perceived value of opportunity | Executive Summary | Identify resource gaps and available suppliers | Identify problems and potential problems |
| Risk and returns of opportunity | Major Sections | Develop access to needed resources | Implement control systems |
| Opportunity versus personal skills and goals | Description of Business Description of Industry | | Develop growth strategy |
| Competitive environment | Technology Plan Marketing Plan Financial Plan Production Plan Organization Plan Operational Plan Summary | | |
| | Appendixes (Exhibits) | | |

The Opportunity Assessment

- Each opportunity must be carefully screened and evaluated. This is the **most critical part** of the entrepreneurial process
 - How big is the market?
 - How long is your **window of opportunity**?
 - How long until marketability of the product?
 - Once marketed, how long before follow-ons or overtakes?
 - What is the upside of success?
 - What is the downside?
 - Are there other opportunities that might be easier and have a better risk/reward ratio?
 - Can you put in the time and effort?
 - Do you **really** believe in the opportunity or are you along for the ride?

The Opportunity Assessment (Cont'd)

- Assessment (cont'd)
 - Will someone buy it?
 - Segmentation – WHO?, WHAT?, WHY?
 - Will it continue to be successful – what is its sustainability?
 - Is it easily imitated?
 - Are there barriers to entry that you can create?
 - - How is your **competitive advantage** protected?
- Obviously, you believe → all systems point to GO.

Types of Corporate Status

- **General Partnership.** Two or more individuals as co-owners of a for-profit business. Partnerships should operate under a written **Partnership Agreement** to avoid future problems!!
 - All partners are responsible for the liabilities and debts of the partnership. For tax purposes, partnerships enjoy **single taxation**. Income is reported as part of each partner's personal income.
- **Corporation.** A legal entity which is created by filing Articles of Incorporation.
 - The Corporation itself assumes all liabilities and debts of the Corporation.
 - A corporation is owned by shareholders. A shareholder enjoys protection from the corporation's debts and liabilities. From a taxation perspective, income is **taxed twice**: 1) at the corporate level; and 2) at the shareholder level **when distributed as a dividend**

Types of Corporate Status (2)

- **S-Corporation.** After filing Articles of Incorporation, a Corporation may seek to obtain S Corporation status for federal income tax purposes. The income of an S Corporation is taxed only once: at the employee or shareholder level. To qualify, the corporation may not have more than 75 shareholders and must meet other certain Internal Revenue Service criteria. The corporation must submit IRS Form #2553 to the IRS. An S-Corporation is considered a corporation in all other respects and is subject to no additional or special filing requirements with the Secretary of State.
- **Nonprofit Corporation.** A corporation whose purpose is to engage in activities which do not provide financial profit to the benefit of its members. Such corporations must obtain nonprofit or tax exempt status from the IRS to be free from certain tax burdens.
- **Limited Liability Company.** An LLC is a formal association which combines the advantage of a corporation's limited liability and the flexibility and single taxation of a general partnership. An LLC has members rather than shareholders. A member enjoys protections from the liabilities and debts of the LLC. Although not required by law, an LLC should operate under an Operating Agreement which is like a Partnership Agreement. For taxes, if the LLC qualifies under IRS guidelines, it may be taxed only once, like a partnership, at the employee or member level, while not having the same restrictions as an S-Corporation.

How Hard Is It To Do?

- Filing with the state is rather easy
 - One form - \$65 filing fee!
 - www.michigan.gov/businessstartup
- Get a Federal ID after you receive confirmation
 - Need a Federal ID to open a bank account
- All of this protects your personal assets from your business assets.
- Risk Management - VERY IMPORTANT

Next Steps: Figure Out If You Have Long Term Viability!

- You need a **business plan**
- Your plan needs to answer questions about the following:
 - External Factors
 - Internal Factors
 - Sustainable Competitive Advantage
- A business plan is essential even if you do not need to raise money
 - A business plan proves to YOU that this idea will work.
- A LOT of work – no one pushes you to complete it – easy to put off...
- Global Orange Development, LLC - Long Range Plan

What do Great Business Plans Include?

- Excerpts taken from: [How to Write a Great Business Plan](#) by William A. Sahlman
- Four independent factors that are most important to the investor
 - The People
 - The Opportunity
 - The Context
 - Risk and Reward

Great Business Plans (cont'd)

- The People
 - It's what investors are investing in – they are investing in you – it doesn't matter the audience, it's all about you.
 - "...without the right team, none of the other parts really matters."
 - 3 Questions
 - What do they know?
 - Whom do they know?
 - How well are they known?
 - Definitely not the only answers that you need to provide but important nonetheless
 - Candidly describe each team member's knowledge of the new venture's type of product or service
 - Very important – proving the value to the company, but someone with a specialization that is not product or service specific is just as relevant.

Outline of a Business Plan (1 of 2)

I. Introductory Page

- A. Name and address of business
- B. Name(s) and address(es) of principal(s)
- C. Nature of business
- D. Statement of financing needed
- E. Statement of confidentiality of report

II. Executive Summary—Three to five pages summarizing the complete business plan

III. Industry Analysis

- A. Future outlook and trends
- B. Analysis of competitors
- C. Market segmentation
- D. Industry and market forecasts

IV. Description of Venture

- A. Product(s)
- B. Service(s)
- C. Size of business
- D. Office equipment and personnel
- E. Background of entrepreneur(s)

V. Production Plan

- A. Manufacturing process (amount subcontracted)
- B. Physical plant
- C. Machinery and equipment
- D. Names of suppliers of raw materials

VI. Operational Plan

- A. Description of company's operation
- B. Flow of orders for goods and/or services
- C. Technology utilization

Outline of a Business Plan (2 of 2)

VII. Marketing Plan

- A. Pricing
- B. Distribution
- C. Promotion
- D. Product forecasts
- E. Controls

VIII. Organizational Plan

- A. Form of ownership
- B. Identification of partners or principal shareholders
- C. Authority of principals
- D. Management-team background
- E. Roles and responsibilities of members of organization

IX. Assessment of Risk

- A. Evaluate weakness(es) of business
- B. New technologies
- C. Contingency plans

X. Financial Plan

- A. Assumptions
- B. Pro forma income statement
- C. Cash flow projections
- D. Pro forma balance sheet
- E. Break-even analysis
- F. Sources and applications of funds

XI. Appendix (contains backup material)

- A. Letters
- B. Market research data
- C. Leases or contracts
- D. Price lists from suppliers

Context of The Plan

- External environment understanding
 - Political / Legal? (Antitrust laws, taxation laws, deregulation philosophies, labor training laws, educational philosophies and policies)
 - Economy? (Inflation rates, interest rates, growth)
 - Socioeconomic? (women in the workforce, workforce diversity, attitudes about the quality of life, concerns about the environment)
 - Demographic changes? (population size, age structure, income distribution, geographic distribution, ethnic mix)
 - Technological changes? (product innovations, applications of knowledge, new communication technologies, private or government R&D initiatives)
 - Globalization? (newly industrialized countries, important political events)

Putting It All Together

(1 of 2)

The 10 Most Important Questions a Business Plan Should Answer

Is the business just an idea, or is it an opportunity with real potential?

Does the firm have an exciting and sensible business model? Will other firms be able to easily copy it?

Is the product or service viable? Does it add significant value to the customer? Was a feasibility analysis completed?

Is the industry in which the product or service will be competing growing, stable, or declining?

Does the firm have a well-defined target market?

Putting It All Together

(2 of 2)

The 10 Most Important Questions a Business Plan Should Answer

Is the management team experienced, skilled, and up to the task of launching the new firm?

Is the firm organized in an appropriate manner? Are its strategy and business practices legal and ethical?

Are the financial projections realistic, and do they project a bright future for the firm? What rate of return can investors expect?

How will the firm's competitors react to its entrance into their markets?

What are the critical risks surrounding the business, and does the management team have contingency plans in place if risks become actual problems?

Investor's Interests

- Executive Summary (needs to be finished LAST)
- Financials
- Balance Sheet
- Sources and Uses
- Expected rewards – Return on Investment

Financing Process (1)

- Kinds of Money?
 - Friends and Family
 - “Dumb money”
 - Not too many questions
 - Investment based on faith in YOU
 - Angel Investors
 - Usually around \$80k investments
 - More savvy – Accredited Investors

Financing Process (2)

- Bank Financing
 - Character
 - Capacity to Pay
 - Capital Required
 - Collateral
 - Conditions (economic, segment)
 - Does the entrepreneur expect to be carried by the loan for an extended period of time?
- Venture Capital Money