

LESSON 1: BUSINESS ORGANIZATION AND THE ENTREPRENEURIAL PROCESS

Focus Question: *What leads to success in starting a business?*

Objectives

Students will be able to:

- Explain the key steps in starting a business.
- Discuss the traits possessed by most successful entrepreneurs.
- Explain the challenges facing most entrepreneurs.
- Explain the differences between a sole proprietorship, partnership, and corporation.
- Discuss the advantages and disadvantages of each form of business organization.
- Support their points of view as to whether their VE should have been organized as a corporation rather than a partnership or sole proprietorship.

Standards

NES: 1, 2, 10, 13, 14, 15, 18

ELA: 1, 2, 3, 4

Time Frame

One day, double period

Notes to Teacher

Distribute Worksheet 9E (“Constructing a Market Basket”) to be completed by Lesson 9.

Distribute Worksheet 16C (“Changing Exchange Rates”) to be completed by Lesson 16.

Materials

Textbook chapter on: Business Organizations

Teaching Strategies

I. Creating a Business

- Distribute Worksheet 1A, “Road Map for Creating a Business.” Have students complete this exercise for homework. Then, as part of the introductory discussion to this lesson, have students explain their answers to the following questions:
 - What do you learn from studying the “road map”?
 - Which is the most important step on this “road map”?
 - What questions does this “road map” help answer?
- Write the following names on the board: Russell Simmons, Bill Gates, and Donald Trump. Ask students to explain their answers to the following:
 - What do you know about each person?
 - What do these people have in common?
 - Why is each called an “entrepreneur”?
 - How important are people like Simmons, Gates, and Trump in the overall economic success of the U.S.?
 - What questions does this list of entrepreneurs raise for our class discussion?

II. What Is an Entrepreneur?

Distribute Worksheet 1B, "What Is an Entrepreneur?" Have students explain their answers to the following:

- Based on what you read here, what does it take to be a successful entrepreneur?
- What does the author mean when he says a successful entrepreneur must "dream big dreams"?
- Why is it so important to be a risk taker? Have passion? Believe in yourself?
 - How important is it to "take care of your people," as compared with the other six secrets? Can you be a successful entrepreneur and not be a good "people person"?
 - Which of these secrets is most important to an entrepreneur's success?

III. What Traits Do Entrepreneurs Need?

Distribute Worksheet 1C, "Three Entrepreneurs." Have students explain their answers to the following:

- What do we learn about these three entrepreneurs from this worksheet?
- What traits do these three people have that help explain their success as entrepreneurs?
- What did you learn from reading about these three entrepreneurs that will be especially helpful to you in running our VE firm?
- Which sentence did you underline in each account to best explain the success of these entrepreneurs?

IV. Different Types of Businesses

Distribute Worksheet 1D, "Interviews." Select 13 students to play the following roles: (1) Owner of a Sole Proprietorship, (2) Members of a Partnership, (1) the Head of a Corporation, (9) Interviewers 1, 2, 3, 4, 5, 6, 7, 8, and 9. Have students act out the three interviews on the worksheet. Then, as part of the whole-class discussion, have them explain their answers to the following:

- What did we learn about each form of business from the interviews?
- Explain what you think the sole proprietor meant when he (she) said "As a sole proprietor I don't have to answer to anybody, and that's just the way I like it."
- What did the partner mean when he (she) said, "A partnership works only so long as you have a good relationship with your partner?"
- Explain this statement by the head of the corporation. "The U.S. wouldn't be what it is today without the corporation."
- Based on what you heard in these interviews, why has the corporation become the major form of business organization in the U.S.?

Summary/Assessment

Ask students to explain their answers to the following:

- What would be some of the advantages/ disadvantages of running our VE business as a sole proprietorship? A partnership?
- Why was our VE business organized as a corporation?
- Do you think it was a good idea?

Homework

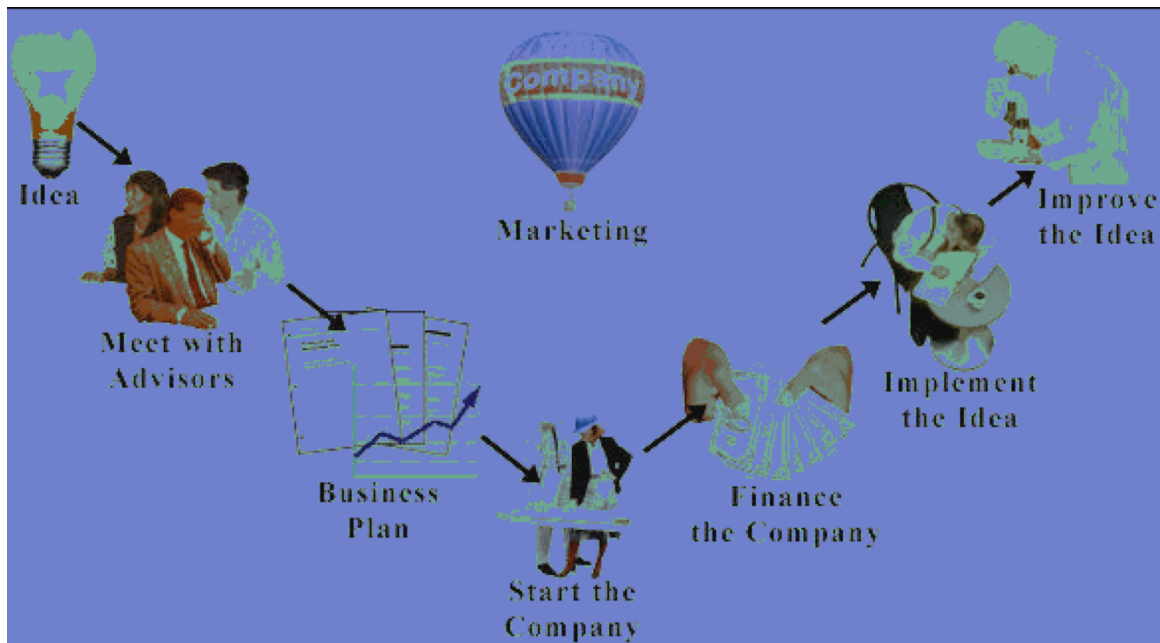
- Read materials in preparation for Lesson 2.
- Assign questions for homework.
- Complete Worksheet 1E.
- Distribute Worksheet 9E ("Constructing a Market Basket") to be completed by Lesson 9.
- Distribute Worksheet 16C ("Changing Exchange Rates") to be completed by Lesson 16. For this exercise, either assign each student the same currency (e.g., the euro) or each a different currency. (If you are assigning each student a different country, make certain that each country selected is represented by an English language version of one of its newspapers appearing at www.newsline.org or www.ecola.com.) Review with students the exercise described on the worksheet.

Worksheet 1A

Road Map for Creating a Business

Exercise: Speak to someone in your local community who has started a business. Show them this diagram. Ask them to provide and explain their answers, which you should write on this worksheet, to the following questions:

1. Which is the most important step on the “Road Map for Creating a Business”?
2. Which of these is the most difficult step on the “Road Map”?
3. Are there any steps that have been left out of this “Road Map”?



www.troynet.net/business/entrepreneurship. Permission pending.

Worksheet 1B

What Is an Entrepreneur?

Exercise. This article attempts to define what it takes to be a successful entrepreneur. Place an "X" next to the "secret" below that represents the most important quality an entrepreneur must have to succeed.

Q: Why are some business people more successful than others? I'm ready to start my own business, but I'm not sure I have what it takes. Any thoughts?

A: Yours is a great question and something I've often pondered. I've concluded that the best entrepreneurs know something that mere mortals don't.

Here are what I call The Seven Secrets of the Great Entrepreneurs:

Secret No. 1: Be willing to take a big risk. Entrepreneurship is, above all else, a risk. When you quit your job to start a new business, there's no guarantee it will succeed, let alone succeed wildly. When Bill Gates dropped out of Harvard to start Microsoft, few people knew what a personal computer was, let alone the software for it. Cookie stores were nonexistent when Debbi Fields opened her first cookie store in 1977. If you'd asked Mrs. Field's back then if she thought her company would have grown to more than 700 stores, she probably would've laughed the way others laughed. You often have to be willing to look like a fool to succeed.

Secret No. 2: Dream big dreams. Jeff Bezos saw something in the early 1990s no one else saw—that the Internet was growing a thousand-fold every year, even though back then, few had even heard of the Net. Great entrepreneurs have a vision, and they cling to that vision even if no one else sees what they see. His vision, Amazon.com, became not just the earth's biggest bookstore—it changed the world.

Secret No. 3: Value the customer above all else. This is another truth that Bezos lives by. To him and to Amazon.com, the customer is king. The same is true for Richard Branson, founder of the Virgin Group (Virgin Airlines, Virgin Music, Virgin Cola and so on). Branson always tries to provide tremendous value to his customers. For instance, he believed that many record stores suffered because the shopping experience needed to be more enjoyable and the staff needed to enjoy their jobs. Voilà! Virgin Megastores.

Secret No. 4: Take care of your people. This includes your employees, investors and stockholders. In 1913, Henry Ford wrote the following: "The wages we pay are too small in comparison with our profits. I think we should raise our minimum pay rate." Eight years later Ford, introduced the first 5-day work week, "Every man needs more than one day for rest and recreation." So too, P.T. Barnum, one of the great entrepreneurs ever, was loved by his employees. He paid good wages, shared profits and made many of his performers very rich.

Secret No. 5: Persevere. As I said, entrepreneurship is a risk, and as such, entrepreneurs often fail. Many entrepreneurs go bankrupt before they hit it big, but they stick with it anyway. In 1975, Microsoft revenues were \$16,000, and it had three employees. In 1976, revenues were \$22,000 with seven employees. Both years the company posted losses. Many companies would've quit after two years, but most companies aren't Microsoft.

Secret No. 6: Believe in yourself. Buckminster Fuller, inventor of the geodesic dome and countless other tools, was an unknown, unhappy man when he decided to kill himself in 1927. But before he could, he realized his problem had always been that he listened to others instead of himself. Then and there, he decided to trust his own intuition. Before he died, Fuller had revolutionized such disparate fields as architecture, mathematics, housing and automobiles.

Secret No. 7: Have a passion. Wayne Huzienga created Blockbuster Video, among many other businesses. "I don't think we're unique, and we're certainly not smarter than the next guy," says Huzienga. So the only thing I can think of that we might do a little differently than some people is we work harder, and when we focus in on something, we are consumed by it. It becomes a passion," says Huzienga.

By Steve Strauss. URL: <http://www.Entrepreneur.com/article/0,4621,278014,00.html> Permission pending.

Worksheet 1C

Three Entrepreneurs

***Exercise.** Read the accounts of Russell Simmons, Sue Scott, and Ray Kroc. Underline the sentence in these accounts that best reveals what helped each become so successful.*

Russell Simmons – Def Jam

In the late 1980s, Russell Simmons was promoting rap concerts at the City University of New York. Most record executives thought rap was a trend that would run its course in a year or two, but Simmons really loved rap and believed it could be huge. For \$5,000, Simmons formed Def Jam records with fellow student Rick Rubin. They produced hit records by Run DMC and LL Cool J. Simmons eventually bought out Rubin and created the multimillion dollar Def Jam empire, which has produced the Def Jam comedy television shows, the record label, and the clothing line. Simmons took a chance because he believed that if you personally know ten people who are eager to buy your product or service, 10 million would buy it if they knew about it. Simmons and Rubin turned Def Jam into a huge success because they made a good team. Alone neither of them had enough money to launch a record label, but together they were able to do it.

Sue Scott – Primal Life

Sue Scott is a sculptor. She made her living working in galleries, but really wanted to support herself with her art. She never thought of herself as the entrepreneurial type, but she knew she was unhappy with her life. One day, she experimented with putting a light in one of her sculptures. She was so impressed with the result that she decided to go into business designing lights. One obstacle she faced was that she needed financing for her business and had very little money of her own. She used her credit cards for the capital she needed to make samples of her novelty lights. Scott named her company Primal Life and went to trade shows across the country to display her samples. After a lot of traveling, 95 sales representatives, from companies across the country purchased her line of dinosaur, fried egg, lizard, and other lights. Today, Primal Life’s annual sales are almost \$10 million.

Ray Kroc – McDonald’s

Maurice and Richard McDonald opened the original McDonald’s restaurant, a small hamburger stand in San Bernadino, California. Ray Kroc, a 52-year-old salesman, sold the McDonald brothers eight Multimixers, used to make milk shakes. When Kroc received the order for the machines—enough to make 40 milk shakes at once—from this small hamburger stand on the edge of the desert, he flew out to see the business for himself. Kroc found one of the most successful little restaurants in America, with sales over \$350,000 a year. The McDonald brothers knew they had a hot idea—cheap food and fast service—that could be expanded around the country. However, they had one problem—both brothers hated to fly. Kroc offered to form a partnership with them and help spread their business across the country. In 1961, Kroc bought out the McDonalds for \$2.7 million, but he followed their original recipe for hamburgers and dictated to all McDonalds that burgers must be exactly 3.875 inches across, weigh 1.6 ounces, and contain precisely 19 per cent fat. Big Mac buns should have an average of 178 sesame seeds.

Steve Mariotti, *The Young Entrepreneur’s Guide to Starting and Running a Business* (New York: Times Business Books, 2000).
Permission pending.

Worksheet 1D

Interviews

INTERVIEW 1

Interviewer 1: Tell us about your business.

Sole Proprietor: I own a hardware store that serves the needs of the people in my community. We're open 6 days a week, Monday through Saturday, from 10 A.M. – 7 P.M.

Interviewer 2: Why did you decide to operate your business as a sole proprietor?

Sole proprietor: As a sole proprietor I don't have to answer to anybody, and that's just the way I like it. I keep all the profits, set my own hours, and make my own decisions. I get a great deal of satisfaction in seeing the business I built grow, and knowing I did it on my own.

Interviewer 3: What things do you like least about running your own business?

Sole proprietor: Everything's on my head. If I don't make enough money, there's no one to turn to for help. If I get sick, have to take care of family business, or go on a vacation, I must find someone to run the store or close it. Sometimes the people that I hire give me trouble, by showing up late or complaining about this or that. Trouble is I have to depend on such people.

INTERVIEW 2

Interviewer 4: Tell us about your business:

Partner 1: We are accountants. We have over 100 hundred clients. I handle half of the clients, and my partner handles the other half. We usually work 6 days a week, I stay late on some days, and my partner stays late on the others. During tax season we even work on Sundays.

Interviewer 5: Why did you decide to operate your business as a partnership?

Partner 2: Having a partnership means that not everything is on my head. If I can't figure out how to do something, my partner usually can. Our losses are shared. My partner fills in for me when I can't make a business meeting. The way I figure, two heads are better than one.

Partner 1: Having a partner makes for a very efficient operation. While we can stay close to the business, like a sole proprietor, there is more potential for growing the business. Having a partner allows us to tap into the strengths and talents that we each have.

Interviewer 6: What are the things you like least about running your business as a partnership?

Partner 2: Things are working fine today because we get along, but a partnership works only so long as the partners have a good relationship. Also, I regret having to share all the profits with my partner when I deal with the biggest clients. Finally, if it ever happens that my partner can't pay her business debts, then I must pay them.

INTERVIEW 3

Interviewer 7: Tell us something about your business.

Head of corporation: We make computer chips. The company is owned by 12,000 stockholders. 6,500 employees work for us. We have factories in Mexico and Thailand and a sales staff all over the U.S., Europe, Asia, and Latin America.

Interviewer 8: Why did you decide to operate your business as a corporation?

Head of corporation: For us there was little choice. In order to raise the large sums of money we needed, it was necessary to sell shares of stock to the public. Our operation is very complex. Organizing as a corporation makes it easier to hire the large number of managers with special abilities we needed. Corporations are taxed at a special rate, which helps us financially. Finally, the corporate form of business allows us limited liability to protect the owners of the corporation. This means that if the corporation is sued or goes out business, those who the corporation owes money cannot take the personal property or money of the corporation's owners. The U.S. wouldn't be what it is today without the corporation.

Interviewer 9: What are the problems you face running your business as a corporation?

Head of corporation: Managing a corporation is not easy, with a Board of Directors wanting to go one way, stock holders wanting higher profits, and the senior officers operating things daily. Having so many levels of management means that making decisions often takes a long time.

Worksheet 1E

Three Businesses

You are a business adviser. The three clients described below come to get your advice as to whether they should organize their businesses as a sole proprietorship, as a partnership, or as a corporation. Write a memo to each fully explaining your decision.

Client 1: “I and a group of investors would like to open an electronics business. Our first product would be a new kind of television that could be sold around the world. The unique features of this TV are that it can also be used as a computer and video telephone. Start-up costs are estimated to be in the millions of dollars, which will go towards opening two factories in Asia and one in South America. We are looking to hire some very skilled technicians and expert managers. I expect that we will be employing about 1,000 workers by the time we open.”

Client 2: “I want to be my own boss. The last thing I want is having somebody making business decisions for me. My idea is to open a store that rents DVDs in my neighborhood. I’m not looking to make a fortune, but to earn enough to meet my basic needs, with a little left over for savings and vacation.”

Clients 3 & 4: “The two of us would like to start a house-painting business. We’re willing to work hard to get the business started. One of us is better at the business side; the other is an expert painter. Together we have enough money to open a small store and buy supplies.”