UNIT II / LESSON 1

The Business Plan: A Road Map for a Business

Time Frame
1 class period

Standards
Entrepreneurial Skills: The Processes and Traits/
Behaviors associated with entrepreneurial success
A. Entrepreneurial Processes:
Understands concepts and processes associated
with successful entrepreneurial performance;
Discovery: A.04. Determine opportunities for venture creation;
A.08. Determine feasibility of ideas

Teacher Background

Unit II introduces the business plan. It is important to note that students are not expected to complete a business plan by the end of this unit. They should, however, by the end of this unit, be able to describe and illustrate the various parts of a business plan. They also should be able to identify the kind of businesses they want to explore as their project for this year and to have selected their "business partners" from the class (if any). They are also going to be able to recognize the pitfalls of not having a thorough business plan and be able to explain why some businesses fail even when they have a thorough business plan. This unit aims to have students learn the sectors of a business plan, such as the importance of having a solid marketing plan, but they will not be performing a break-even analysis at this point.

This unit will rely heavily on *EntreSkills, Version 2*, Chapters 3 and 11. Since students throughout the country are using different textbooks to study entrepreneurship and since there is not one uniformly acceptable business plan design, it is best to rely on the broad descriptions supplied by *EntreSkills* for the lesson plans in this unit. It is expected that instructors will coordinate these lessons with the particular texts they are using with their students.

This first lesson will help students to recognize the importance of having a business plan. Students will first look at the story of a person who wants a bank loan for her start-up business. After evaluating whether that person should receive a loan, the students will use material on the *EntreSkills* web site to work on identifying their own business ideas.

Guiding Question

Why is the absence of a business plan almost a guarantee that a business will fail?

Objectives

Students will be able to:

- Critique the business plan of a person who wants to start a business.
- Draw conclusions as to why a business plan is vital to the success of a business.

New Vocabulary

business plan

Materials/Resources

Handout II.1—Loan or No Loan? That Is the Question

Teaching Strategies/Supporting Activities

- Say to the class: "What do you know about knitting and how to operate a knitting store?" (Elicit the idea that most students in the class know little or nothing about the subject of knitting.) "Today, you are going to take on the role of a bank loan officer. What factors do you need to consider before determining that you would give someone a loan for a start-up business?" Have students create a list of the factors they would consider and then have volunteers share their items with the class. Make a list on the board, which should include items such as:
  - What are the chances that this business will succeed?
  - What are the chances that the bank will get back the money that they loan to the start-up?
  - Is this a business that is filling a need in the community?
  - Is the person's plan for starting this business well thought out?
- Distribute Handout II.1. Have students read the story of Anjali and determine whether they would give her a loan for her business, listing at least five factors that led them to approve or reject her loan application.
- After they have completed the reading assignment and their lists, have students move into small groups of three-four students and discuss their conclusions. Ask each group to try to reach a consensus on whether they would or would not grant the loan, as well as a consensus group of reasons for their decision. Have each group share its outcomes with the rest of the class by having the first group present all of its findings and each subsequent group just add to the first group's list. (The most likely outcome is that she should not be granted a loan. However, if there are groups that believe she should receive the loan, it should make for a lively discussion in the process of reaching the conclusion that this loan should not be granted.)
- Ask: "As the bank's loan officer, what actions would you recommend Anjali take before she submits another loan application?" Have each group create a list of recommendations; this activity should establish a class definition for "business plan" and elicit the idea that Anjali must develop just such a business plan.

Summary/Application

Write on the board: "Without a good business plan, a potential entrepreneur, even with a great idea for a business, is almost guaranteed to fail." Have students explain the meaning of this statement. Ask, "Do you agree with this statement? Why or why not?"

Follow-up/Homework

- Write a detailed memo to Anjali Merced pointing out the information that she needs to supply before you, the loan officer, will look at her application for a loan. Include at least one or two points that were not covered in class.

- Write a short paragraph of 3-5 sentences describing your "business." If you are still not sure of the type of business you are planning to "develop" this year, describe the kind of business you think would interest you. For example, do you want to start a business that will offer a service? What kind of service? What qualifications to you have to provide this service? Or, do you want to have a business that will provide a product? If so, what type of product?

Expand Your Knowledge

Visit a local bank and ask to speak with a loan officer. (Be sure to bring a form of identification, dress nicely [it is not necessary to wear a suit and tie but no jeans, hat, or super-short skirt or shorts], and bring a pad or pen to take notes.) Explain the course you are taking and why you want to speak with a loan officer. Find out from the loan officer what he or she looks for when reviewing an application for a small business loan.

HANDOUT II.1—Reading 1

Loan or No Loan; That Is the Question

Directions: The following is the business plan of a person who is applying for a $75,000 loan in order to start a business. You are the bank's loan officer. You must decide whether to grant this loan and provide the reasons for your decision.

My name is Anjali Merced. I am a thirty-four year old single mother of two children. Now that my children are in middle school, I have decided to quit my job as an editor at a textbook publishing company and open up my own business. I have always loved to knit and everyone has told me that my knitting creations are beautiful. I have knit everything from sweaters, booties, hats and blankets for babies to scarves, sweaters and socks for adults. Over the years, I have managed to save $20,000. I am pretty sure this will cover the cost of opening and operating my business for the first six months, including purchase of supplies, office furnishings, computer equipment, and other office supplies, as well as the cost of rent ($1,500), utilities (electric, phone, and heat cost approximately $250 a month), and advertising. I figure that I can buy all of my knitting supplies from another knitting shop in town, using my credit card that currently has a $15,000 credit limit, and then charge 20% more in my shop because I will give people free one-on-one knitting instructions. I will also save money by just buying one of each pattern book and make copies on my copy machine as people need the instructions and not charge people for the patterns.

I plan to run the store myself so that I do not have any labor costs and all of the profits are all mine. I figure that my hours of operation will be Monday through Friday from 10:00 AM until 4:00 PM so that I can be home when my children get home from school and I will not have to hire anyone to take care of my children. I also plan to open the store on either Saturday or Sunday depending on my children's activities (I figure I can always bring the children to the store). My sister, Leanna, who lives in the next town, says that she can help with the store in an emergency. I and my children are healthy and there will not be any employees; therefore, I figure I will not need to purchase any health insurance.

I believe that the $75,000 loan will enable me to sign a two-year lease on an office/store. I will also use the money to publish my own knitting books that feature my original designs. I am also planning on working on my creative designs during the slow times in my shop.