



**Business Start-up
Training
Programme**

**Trainee
Workbook 1**



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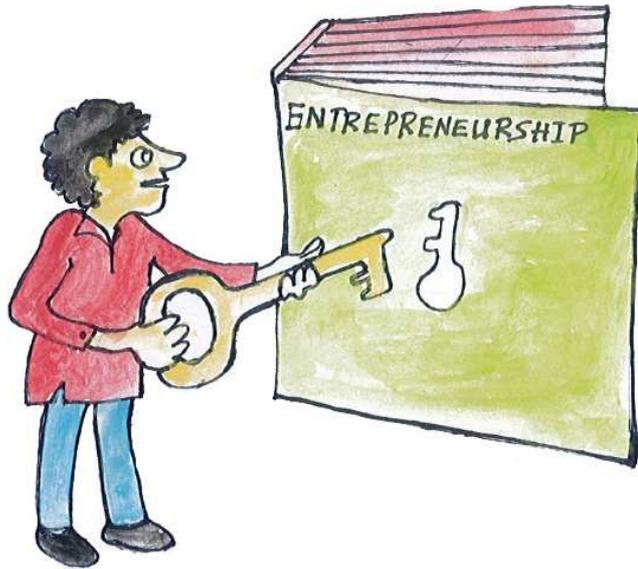


Module 1: Practical Entrepreneurship

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1. Practical Entrepreneurship



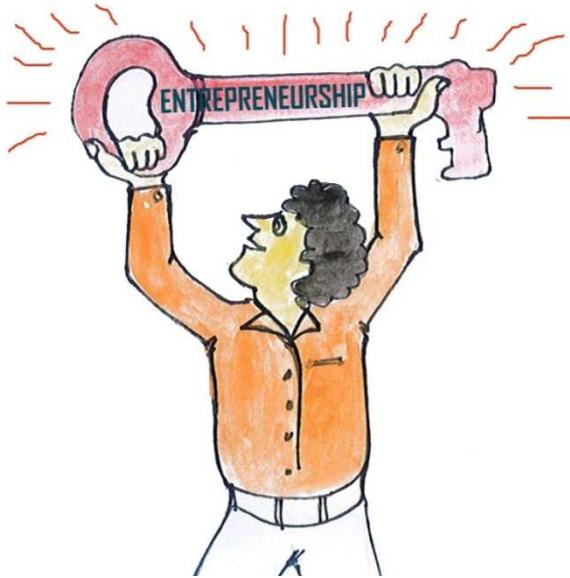
Starting a business is a common thought among many people. We also observe that people start new businesses in different sizes and different styles. The trend of starting businesses is now taking a different shape with the other developments. But, if we analyse the survival and the growth of the businesses, we can find many reasons to prove that we need a special type of mind-set, qualities, behavioural pattern, knowledge and skills to start a healthy business which will grow and sustain. Entrepreneurship is the collective term for all these aspects. Self-motivated people who think, act and start a business based on all these entrepreneurial aspects are the entrepreneurs. They change the whole destiny of the entire generation astonishing the others. This session helps us to understand the nature of practical entrepreneurship, and develop our entrepreneurial mind-set, behavioural pattern and skills required as a potential entrepreneur.

Learning objectives:

At the end of this module, we will be able to:

- ✓ develop our understanding on practical entrepreneurship, entrepreneurial mind-set, and related skills covering the following subject areas:
 - 1.11. Power of entrepreneurship
 - 1.12. Entrepreneur and entrepreneurship
 - 1.13. Importance of entrepreneurship
 - 1.14. Characteristics of an entrepreneur
 - 1.15. Creativity & Innovation – Essential tools
 - 1.16. Entrepreneurial competencies
 - 1.17. Process of entrepreneurship
 - 1.18. Wealth of an entrepreneur
 - 1.19. Types of businesses
 - 1.20. Legal modes of businesses,
- ✓ Perceive entrepreneurship, enterprises and entrepreneurs in a more understandable manner, and
- ✓ Establish practical readiness to start wealth building practices.

1.1 Power of entrepreneurship

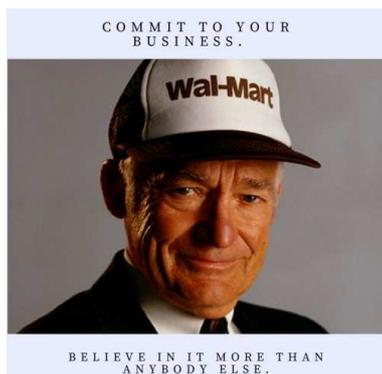


True entrepreneurship is powerful. It can drive a person from rags to riches, unknown to the world famous, and the condemned in the community to the respected in the world!

A milking man to the richest man in America – Walmart founder's story



Sam Walton was born in to a poor family living in a farm. As a child, he helped his family by milking their cows, bottling it and selling to the customers. Since the income was not sufficient, he sold newspapers as well. Even in the school, he supported the others in



exchange for meals. He then joined the military. After passing a hard time from the childhood, Walton wanted to start a business. With a small amount of money he has saved from hard work and an amount of borrowed money from his father-in-law, he purchased a small store at the age of 26 and expanded it as a chain of stores. Moving forward through ups and downs, Walton

drove his small store to be the world's largest company in terms of revenue- Walmart. Walton's net worth exceeded US \$ 100 billion in 2015. He strongly believed that he could face challenges and continued his actions to reach his targets. This is called self-efficacy. He was a true entrepreneur who always emphasized the following statement.

"Commit to your business. Believe in it more than anybody else."

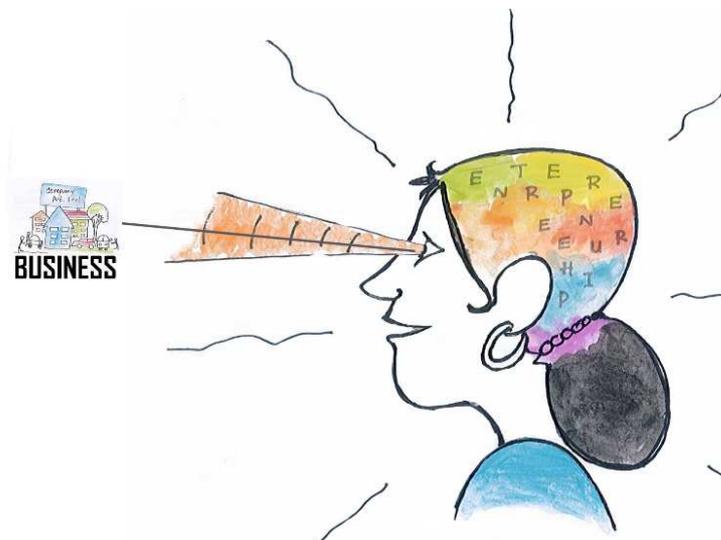
His entrepreneurial spirit elevated him from a humble beginning of selling milk and newspapers to the highest level of success.

We can find many examples of this nature in every country. Nawaloka, Abans, Siddhalepa, and Maliban are only a few examples from our country.

Group discussion: What are the key thought provoking points in the Walton's story?

Assignment: Study about a Sri Lankan or foreign entrepreneur who rose to the highest success from humble beginning; identify the thought provoking points in his entrepreneurial journey and present them.

1.2 Entrepreneur and entrepreneurship



Who is an entrepreneur?

An entrepreneur is a person **who starts and carries out a business while taking the risk in order to make a profit.**

Consider the following cases.

Case1: Janaki, after leaving the school, had a passion to start her own business. While thinking about a suitable business idea, she spotted a good business opportunity for three wheeler repairing in her area. After collecting a lot of information, she was convinced that it was the ideal business for her. Her uncle was an owner of a three wheeler repairing centre in a different area. After speaking to the uncle, Janaki stayed at uncle's house and learnt about repairing three wheelers over a period of 8 months.

When she was confident that she could manage, she started a small scale "three wheeler repairing centre" at her home. Her brother helped her initially, but she gradually developed her business recruiting employees when she felt needed. After three years, today her business has grown and eight employees are working. Entrepreneurs of Janaki's type are called "**Opportunity Entrepreneurs**". They get in to businesses because they see it as the most viable option to build their kingdom. They are committed to take the advantage of the opportunity and they have the tendency to develop their businesses to the highest possible level.

Case2: Praveen found it difficult to manage only with his salary. He started a micro business of computer repairing in the week-ends because he could do it and he needed an additional income. Praveen was not attracted to the business world by seeing business opportunities. He was not interested in improving his business because he was satisfied with the additional amount of money he received from this business. Such entrepreneurs are called "**Necessity Entrepreneurs**". They are compelled to do businesses because of the necessity. Unless they become "Opportunity Entrepreneurs" one day, necessity entrepreneurs do not have the tendency to develop their business.

Exercise: Describe about visible special characteristics embedded in Janaki when compared with Praveen.

Our aim should be to be opportunity entrepreneurs. They are the true entrepreneurs. They see a bright future through starting a proper business and growing it. They are confident that by developing the business, they can change their own destiny, the destiny of their family and the destiny of the world!

Such an entrepreneur identifies a business opportunity and transforms it to a practical business through innovative thinking undertaking the risks and drives the business making **profits**, while developing **people** and protecting the **environment**.

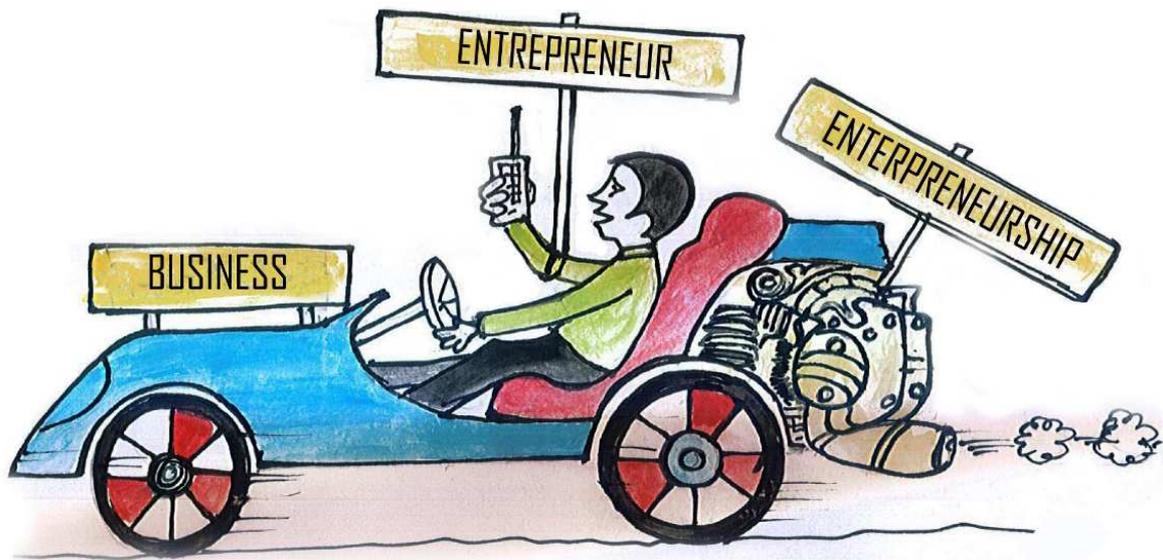
Think about the key words – profits, people, and environment; businesses should make profits, develop people and protect environment.



Profit making is the prime concern of an entrepreneur. But, simultaneously, they are accountable to develop people and protect the environment. Therefore, always businesses should precisely implement ethical strategies. There are many definitions for “the entrepreneur”. But, the above explanation provides a practical and simplified meaning of the term “entrepreneur”. Remember, an entrepreneur takes risks meaningfully; but, he is not a wild risk-taker. He also effectively pools together necessary resources in creating the business.

Entrepreneur creates value for the customers, employees, himself (shareholders) by offering novel products and services.

What is entrepreneurship?



Entrepreneurship is the essence embedded in an entrepreneur. It makes him to think like an entrepreneur, behave like an entrepreneur, and act like an entrepreneur. Entrepreneurship is like the software installed in the entrepreneur. It provides the power to drive the business. Entrepreneurship-based practices are called entrepreneurial practices. Similarly, we can think of entrepreneurial thinking, entrepreneurial approaches etc. The person becomes an entrepreneur because he has entrepreneurship in him.

We need to understand about the entrepreneurship, identify it, and develop it in order to practice it. When we have entrepreneurship and want to start a business, we become potential entrepreneurs until we start a business. When we start a business with entrepreneurship, we become entrepreneurs.

Social entrepreneurship & Social enterprises



Entrepreneurship drives the entrepreneurs to carry out businesses to reap economic profits by offering a solution to the marketplace. Those solutions mainly focus on needs and wants in the marketplace. Social needs are different to the normal marketplace needs and wants. Social needs can be associated with social gaps or social development. Social entrepreneurs establish social enterprises to address such social issues. Related entrepreneurship is called the social entrepreneurship. Social entrepreneurs aim at maximizing gains in social satisfaction (social profits) whereas the other entrepreneurs aim at financial profit maximization. Social entrepreneurs are less in number at present. But, today the world needs more social entrepreneurs to address the increasing number of social issues.

Examples:

- a. A business that produces handmade paper using elephant dung in order to reduce tree-cutting, convert waste in to a marketable product and generate employment opportunities for the area youths.

- b. An enterprise that offers computer training to the village youths in order to achieve its objective of developing employability of village youths.

Social entrepreneurs have social objectives. They also focus attention to the economic profit, not to build his wealth, but to sustain the enterprise. In many cases, the respective governments provide assistance to maintain and continue such authentic social enterprises.

Assignment 1: Study about a social enterprise operated in Sri Lanka and write its goal, objectives and activities.

An idea on different types of entrepreneurs

Entrepreneurs are clustered in to different types according to the operational features and methods. Some types are given below.

Type	Brief description
Start-up entrepreneurs	Entrepreneurs who start new businesses; they are the founders.
Acquisition entrepreneurs	Entrepreneurs who run a pre-existing business; businesses have been established by start-up entrepreneurs;
Replicative entrepreneurs	Entrepreneurs who start businesses copying already existing ventures
Innovative entrepreneurs	Entrepreneurs who start new and growth-driven businesses, through innovative ideas
Digital entrepreneurs	Entrepreneurs who use digital-related technology in the business; they use digital marketing, digital tools for sales; websites; social media; on-line business strategies etc.
Women entrepreneurs	Entrepreneurs who are women; some challenges are different
Green entrepreneurs	Entrepreneurs who identify environmental issue as a business opportunity and carry out socially important businesses with risks, contributing to environmental protection and making profits; they are a sub-group of social entrepreneur category.

There can be more categories. These categories are not exclusive. It means that if Shivanthi has started a new creative online business with a purpose of providing advisory services to industrialists how to reduce air pollution done by their industries, Shivanthi falls in to several types as follows:

Woman entrepreneur + Start-up entrepreneur + Innovative entrepreneur + Digital entrepreneur + Green entrepreneur

Group exercise: Discuss about the specific challenges faced by different entrepreneur groups.

Intrapreneurs

Milinda is the Chief Executive Officer (CEO) of Sri Lanka Green Tea Company. He develops the company with his entrepreneurial capabilities. He is the internal entrepreneur, but not the owner or founder of the company. He is an employee there, but very powerful because he is the practical leader of this business. The founding owner comes only for top level meetings. Such employees who have the full responsibility of managing businesses are called “intrapreneurs”.

Intrapreneur is a person with entrepreneurial capabilities, who manages and develops a business founded by another person. *Most of the CEOs of large business corporates are intrapreneurs. They may have an ownership share offered by the owner.*

Assignment 2: Find out and study the differences between an entrepreneur and an intrapreneur.

- This is a **take-home group assignment**. Group members should present findings to the others in the class.

1.3 Importance of entrepreneurship

Value of entrepreneurship for the country

Entrepreneurship has a high value because it can develop persons, families, communities and countries. In macro views, entrepreneurs largely contribute to employment generation and market dynamics, innovation, productivity and growth. Their contribution to the Gross Domestic Product (GDP) is considerable. Creators of the private sector are entrepreneurs. All countries agree with the fact that the private sector is the engine of the growth of that country. That view implies the value of entrepreneurs in the country's context.

Value of entrepreneurship for the person, family and the community

In micro view, true entrepreneurship clears the path way for a person to reach the highest success. Its practical validity is confirmed by the true stories on “rags to riches” entrepreneurs. Entrepreneurs can design their own future, while the others will have to depend on somebody else or some organization to help them out. If we are employed, our progress is controlled by our salary and the other job-related limitations. But, the entrepreneur is his own master. He is the decision-maker and the planner. His individual capacity is continuously growing because it is in use. He doesn't have idling time although there are relaxing moments. Personal productivity also reaches higher levels in this case. An entrepreneur generates employment for the others. Thus, the entrepreneur has the capability of developing his own life, family, and the others in the community.

1.4 Characteristics of an entrepreneur



To be entrepreneurs, they need to possess a specific set of characteristics although each entrepreneur may not have the full set. However, possession of a majority number of characteristics at different depths would be essential if someone wants to be a successful entrepreneur. The composition of the characteristics bunch and the depths of the characteristics shape up his level of entrepreneurship. Level of entrepreneurship is a decisive factor in deciding the success level of the entrepreneur.

Story of Marcus- An inspirational entrepreneur:



Marcus as an unemployed youth felt that he has a passion to earn money through his own economic activity. He further understood that the rich women in his area admired small boxes covered with sea shells, while sea shells were freely scattered over the near beaches. He started going to the beach early morning in shivering cold, collected sea shells and walked along the streets selling them. Rich women bought sea shells, used as buttons of clothes, and pasted them on the small jewellery boxes. Marcus was happy when he counted the money earned throughout the day. It was his tiny business started without any investment. His friends laughed at him sarcastically because it was a very small activity. He continued it, got the assistance of a close friend who was also jobless. He, then started making boxes covered with sea shells and sold at several places, through a few people working for him. This was the humble beginning of Marcus Samuel. He added another business of buying and selling petroleum products. When he wanted to register his business, he used the logo of a sea shell and named it "Shell". Today, Shell Company is a giant business empire operating in many countries in the world!

Exercise 1: What are the specific characteristics of Marcus?

.....
.....
.....

Exercise 2: What are the other learnings we can get from this story?

.....
.....
.....

Self-Assessment of some key entrepreneurial characteristics:

Entrepreneurial characteristic	My situation	
	Satisfactory	Need to develop
1. Sees opportunities that can be converted in to profit-making ideas (Opportunity seeker)		
2. Takes risks consciously (Risk taker)		
3. Effectively mobilizes resources to achieve his expectations (Resource mobilizer)		
4. Initiates what he needs to do (Initiator)		
5. Thinks creatively and finds a practical way to realize it (Innovative thinker)		
6. Sets goals with more energy, happiness and positivity (Goal setter)		
7. Enjoys meeting challenges (Admirer of challenges)		
8. Takes responsibility about own decisions, acts and their consequences (Responsibility taker)		
9. Plans well, executes precisely and reaches success (Success chaser)		
10. Changes his strategies according to the changing environment, in order to reach his goal (Effective changer)		

Other vital characteristics of entrepreneurs

The following list contains the other vital entrepreneurial characteristics. It would be helpful for us to assess our status pertaining to these vital characteristics also so that we can take action to develop the gaps. The above format can be used with the below characteristics for this purpose.

Success-focused determination	Market-oriented thinking
Positive thinking approach	Being intelligent
Strong self-confidence	Self-motivator
Being energetic	Commitment to work
Perseverance	Quality-consciousness
Resilience	Logical thinker
Good listener	Practical thinker
Effective decision-maker	Effective convincer
Solution-seeker	Patience
Visionary leader	Understands value of money

Field assignment: Three parts.

Part 1: Meet a successful entrepreneur in the area of the trainee and collect information related to his entrepreneurial characteristics for presentation. Trainer will provide the guidelines and the format.

Part 2: Compare your own relevant characteristics with the entrepreneurial characteristics of the entrepreneur.

Part 3: Prepare an action plan to develop own gaps.

1.5 Creativity& Innovation – Essential tools



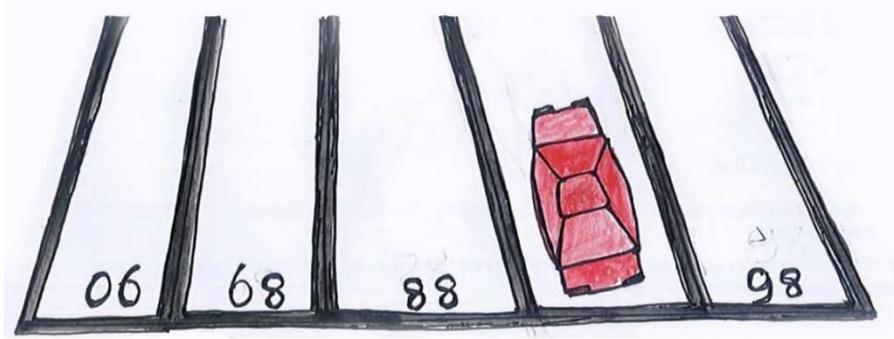
A common key quality of successful entrepreneurs

All successful entrepreneurs in the world, including Sri Lanka have some common qualities. One key quality that stands out is their creative thinking and innovativeness. True entrepreneurs are creative and innovative at different degrees. The people who are more creative and more innovative are more successful as entrepreneurs.

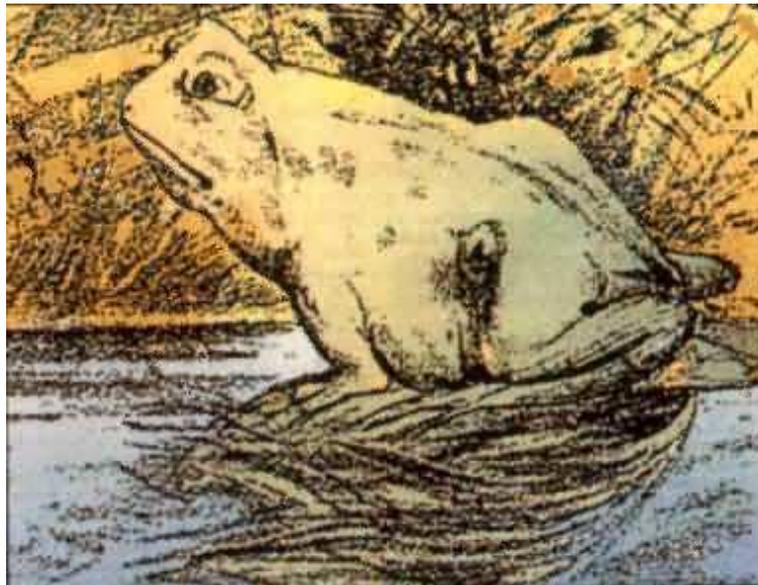
Entrepreneurs can balance their logical, methodical thinking (linear thinking) and insightful, creative thinking (non-linear thinking) better in looking at issues, situations, persons and processes. But, the average people use only the linear thinking.

What is the parking lot number where the car has been parked?

(10 seconds for the answer)



What do you see in this picture?



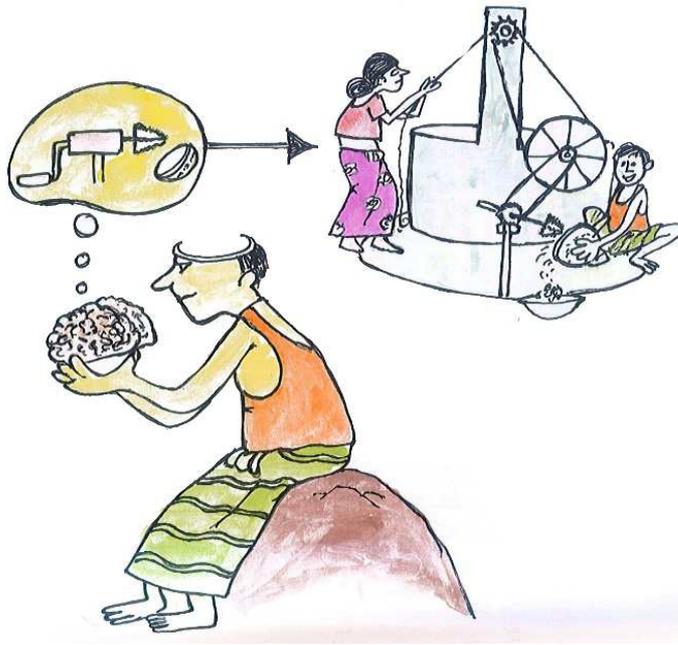
What is creativity? What is innovation?



Wilbur Wright and Orville Wright were brothers who were crazy about new imaginations. By seeing toys and its mechanics, the boys were fascinated about a flying machine from the childhood. In 1882, Wilbur and Orville opened up a bike shop. They assembled bicycles using their own designs and sold in the shop. But, this was a small business operation. However, they did not forget about their “flying machine craze”. They made basic structures, tried and failed. Their issue was fixing moving wings. They tried to comprehend how the birds are flying. Ultimately, they realized their dream, by inventing the first powered aeroplane.

However, their invention was not admired by their own country at the initial stages. They went to France and start the business with higher progress. With that reputation, they came back to their country USA.

Wright brothers were not conventional thinkers. From the childhood, they were thinking out-of-the-box. They observed birds to enrich their creative idea. Their creative thinking and passion paved the way for them to design and construct the first aeroplane. Their names were written in the history and the world today use large flights abundantly for transportation.



Creative thinking is the non-conventional thinking which focuses on finding solutions, making situations better, and facilitating human life. It can be crazy thinking, but with a purpose. But, if it is limited only to the thinking process, it is useless. Transforming this creative thinking into a practical usability, it is innovation. The starting point of an innovation is a creative idea. Products and services used by us

today have been innovated by somebody starting with a creative idea.

Table-mounted coconut scrapper:

Famous Sri Lanka entrepreneur Odiris Silva got a brilliant idea about a coconut scrapper which can be operated while standing. He was thinking about solutions for an issue faced by housewives that time, “the difficulty in using the conventional coconut scrapper”. He invented the table-mounted coconut scrapper which gave him a lot of recognition and money because it was a high demand household product.

Taxi-booking mobile app:

It was a creative thinking of Anthony Tan in Malaysia. When his friend was complaining about the hassle of hiring a taxi, Tan started thinking about a method where the potential passenger can book a taxi from home or where he is, using his mobile phone. Taxi-booking mobile app was the innovation that resulted from that creative thinking. We can imagine the simple thinking of Tan and the massive and ground-breaking invention which has changed the global vehicle hiring landscape.

It is clear that the entry point to innovation is creativity or creative thinking. It leads to new products and services. In addition, creative thinking is also the pathway for solutions

of many business-related issues and effectiveness and efficiency improvement of existing process/ situations of the business. Using the entrepreneurial creativity and innovativeness, the entrepreneur can comfortably find solutions, develop systems and practices and establish a unique competitive strength for his business. Creative approach contributes to entrepreneurial decision-making. It also facilitates making associations between previously unconnected domains. In fact, business persons who lack creativity cannot compete with creative entrepreneurs.

Good news is that creativity lives inside all of us, but overshadowed by ever establishing conventional and “single path” thinking. Further, research and real world stories show that anyone can learn to be creative unleashing the inner ability and developing it. Developing the hidden creative and innovative potential is crucial for all potential entrepreneurs.

Techniques such as “Brainstorming” and “Mind-Mapping” help entrepreneurs to unleash their creativity and come up with creative ideas.

a. Brainstorming



Dog food manufacturing company had been experiencing low sales of its most researched product which was launched twelve months ago. The other products were selling fast. This new product was the result of many scientific and technological tests. The Chairman of the company wanted to conduct a brainstorming session to find out a solution for this critical sales issue. **Brainstorming is a creative thinking technique used for idea generation and finding solutions for issues.** When all employees of all ranks including security personnel gathered in to the hall at the correct time, the chairman started the session explaining about the purpose of the brainstorming session he was going to conduct. Then, he explained about the rules and ask all of them to come up with their ideas. Focus was to find out why it was not selling. Rules: all ideas including crazy ideas were welcome; no ideas should be ridiculed by anybody; all can freely express their views; one can develop an idea presented by another person; and, all ideas would be recorded. Marketing director pointed out that the only reason was attributed to the competition and their cheap alternatives. Similarly, many employees expressed about their views. The sanitary employee got up and told that the reason could be that the dogs didn't like to eat it. The other employees did not laugh because the chairman had set out rules. However, chairman felt that it was an unconventional idea, but allowed to proceed till the end of the brainstorming session.

As the next step, chairman asked the pet division's officer to get three dogs and test whether the dogs like this particular food type or not. The officers kept three other fast moving varieties and this food stuff in different containers and allowed the dogs to eat. They sniffed this food stuff, showed a dislike, approached the other varieties and ate. It was practically proven that they actually did not like it. Then the research team did some development to improve the relevant quality of food and the company improved its sales. Sanitary employee's idea given during the brainstorming was the clue that guided the company to find a positive solution for this marketing issue.

Exercise 1: Describe about brainstorming? What are the key rules in conducting a brainstorming session?

Brainstorming:

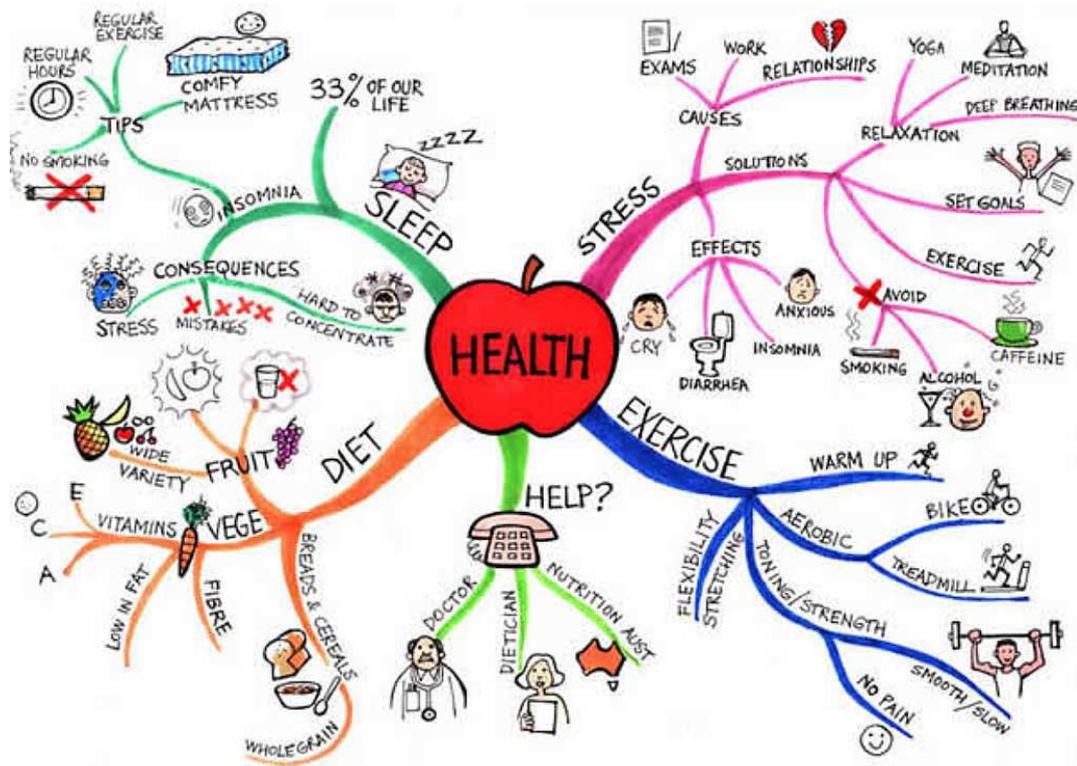
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Key rules in conducting a brainstorming session:

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.....
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Learning activity: Conduct a brainstorming session on “**part-time income generation activities that we can do**”. Trainer will facilitate. Discuss about the learning points of the brainstorming session.

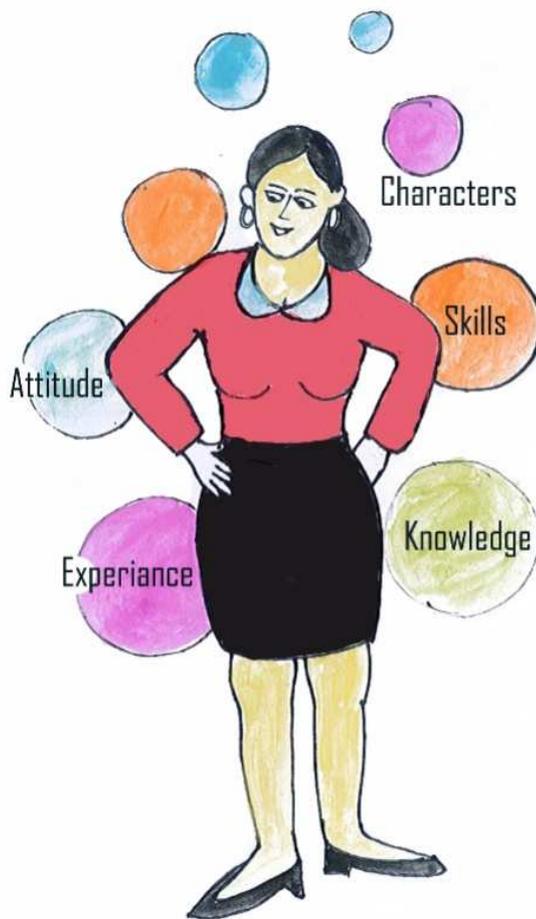
b. Mind mapping



Mind-mapping is another technique which unleashes creativity. It is a simple, but powerful graphical method which encourages thinking on both sides of the brain. It visually displays the various relationships among ideas and improves the ability to view a problem from many sides. This technique maps out our thoughts using key words that trigger associations in the brain to spark further ideas.

Learning activity: Learn how to do mind mapping. Your trainer will explain and guide you. Prepare a mind map for “starting my own business”.

1.6 Entrepreneurial competencies



Entrepreneurs should have special capabilities to create a new venture, sustain it and develop it. These special capabilities are known as “Entrepreneurial Competencies”. If the entrepreneur A’s entrepreneurial competencies are higher than that of the entrepreneur B, Entrepreneur A will be more successful than the entrepreneur B. As potential entrepreneurs, we are required to develop these competencies because they are the driving forces in starting a new business and managing it.

Basically, entrepreneurial competencies can be divided in to two broad categories as follows:

<p>Category 1: Personal Entrepreneurial Competencies</p>	<p>Category 2: Business-related Entrepreneurial Competencies (Business Initiation, Business Management & Business Development Competencies)</p>
----------------------------------------------------------------------------	-----------------------------------------------------------------------------------------------------------------------------------------------------------------------

1. Personal Entrepreneurial Competencies



Capability and driving factors embedded in the person's attitudes, motives, traits, self-image, behavioural features, social roles, "applied" knowledge, skills and similar aspects are the personal entrepreneurial competencies.

2. Business- related Entrepreneurial Competencies

Business- related competencies include three classes of competencies, namely "business initiation", "business management" and "business development". Most of them are competencies based on "Applied" knowledge and skills. If a person is committed, these competencies can be developed through learning and practice.

When we put altogether, the following chart will help us to understand what entrepreneurial competencies are.

Competency types & Key competency components

Competency type	Key competency components
Attitude-based and Behavioural	Growth mind-set; proactivity; entrepreneurial passion; information-seeking; perseverance; innovativeness; entrepreneurial identity; persuasive and influential, chasing behind quality; flexibility;
Skills-based	Resource mobilization skills; marketing skills; interpersonal skills; negotiation skills; convincing skills; financial literacy skills; decision-making skills; learning skills; strategic skills;
"Applied" knowledge-based	Entrepreneurship; idea generation and selection; business initiation; business management; business planning; marketing and sales; finance; technology; business development;

Special note:

Certain competencies can be inborn. People can develop most of these competencies through training and practice. Understanding the correct meaning and the shape of these competencies would be very useful to train and practice them.

Game – Entrepreneurial competency match

This is a group game. In this game, we can assess the level of our understanding on the entrepreneurial competency types and the competency components of each type. This understanding is important for all potential entrepreneurs.

The trainer will explain how to perform the game and guide it.

1.7 Process of entrepreneurship



The process of entrepreneurship is the entrepreneurial process which moves from the idea search up to starting a new business and developing it. The whole process can be segmented in to four stages, one after the other as follows.

STAGE 1	STAGE 2	STAGE 3	STAGE 4
Deciding to become an entrepreneur	Developing a successful business idea	Moving from an idea to an enterprise	Managing and growing the business

Each stage requires different combinations of entrepreneurial competencies. When we know about these stages, the business creation pathway is clear and we can customize our efforts in each stage. Let us get a clearer picture about these four stages.

Four stages of entrepreneurial process

STAGE 1 Deciding to become an entrepreneur	STAGE 2 Developing a successful business idea	STAGE 3 Moving from an idea to a business	STAGE 4 Managing and growing the business
<ul style="list-style-type: none"> ▪ Pro-business mind set ▪ Motivation ▪ Learning ▪ Search for information on the business world 	<ul style="list-style-type: none"> ▪ Search for a business idea ▪ Selecting the best business idea ▪ Concept development 	<ul style="list-style-type: none"> ▪ Deciding to proceed ▪ Business planning ▪ Technology ▪ Motivation ▪ Resource pooling ▪ Launching the business ▪ Business strategy 	<ul style="list-style-type: none"> ▪ Managing ▪ Introducing and developing systems ▪ And many more

1.8 Wealth of an entrepreneur



Jack Ma was born in China in 1964. As a boy, he used to ride 70 miles on his bicycle to practice English with tourists as he had a target of learning English. He struggled four years with his college to pass the entrance exam. Jack Ma was continuously unsuccessful in employment seeking although he applied for 30 different jobs. He was turned down even by the police when he was present for the interview. When KFC came to his city, he applied for a job. There were 24 applicants, and all the others were selected. He also applied 10 times to Harvard Business School without success.



In 1994, he heard about the internet. He went to the USA with some friends and gathered some information about internet. He and his friends set up a small company to create websites for the other companies. In 1999, he founded a China-based business-to-business- marketplace site called “Alibaba” which became the world’s largest business in that category. He was announced as the one of world’s richest men. Jack Ma was ranked 2nd in the annual “World’s 50 Greatest Leaders” list by Fortune in 2017. His net worth was US\$ 42.7 billion in 2018.

The above true story inspires the entrepreneurs, explains about the entrepreneurial journey and acts as an eye-opener for wealth creation of successful entrepreneurs.

Entrepreneurs are wealth creators while they enjoy a comfortable life. In our practical world, we have seen or heard about many business people who are struggling to build their wealth.

Wealth building

Wealth is not **only** the value of lands, buildings, vehicles and other machineries. It is the **net worth** owned by the entrepreneur. In simple terms, net worth is the total assets minus total outside liabilities.

Net worth = Total assets – Total outside liabilities

Why wealth building for potential entrepreneurs?

One of the major goals of an entrepreneur is wealth building. Potential entrepreneurs should start practicing it as early as possible. In addition, the biggest problem people face in starting a business is the starting capital. We call it the seed capital. It is proven that people should avoid starting businesses with borrowed money at an interests from outside. Potential entrepreneurs should build up at least a part of the capital required and borrow money at a very comfortable rate for the balance. In all angles, it is advisable for the potential entrepreneurs to start wealth building early. After starting the business, when it is managed effectively, business will help them to increase their wealth fast.



This is another important part of our journey. We should clearly understand the concepts, practice the techniques and start building our wealth.

Let us start with assessing our current wealth situation using the “Personal Balance Sheet” tool.

Personal balance sheet template:

PERSONAL BALANCE SHEET AS AT(date)

Personal balance sheet contains the personal assets and the personal liabilities. When the total liabilities are deducted from the total assets, the result is the wealth owned by the individual at that time.

Personal balance sheet template:

Description	Value (Rs)
PERSONAL ASSETS	
<u>Non-current Assets (A)</u>	
Land and building	
Vehicles	
Furniture	
Jewellery	

Total Non-current assets	-----
<u>Long term investments (B)</u>	
Fixed deposit	
Treasury bills	
Shares	
Total long term investments	
<u>Total Current Assets(C)</u>	
Savings account balances	
Cash receivable from others	
Cash balance	
Total Current assets	
Total Assets (A+B+C)	

<p>Less: PERSONAL LIABILITIES</p> <p><u>Long Term Liabilities(X)</u></p> <p>Housing loans</p> <p>Other long term bank loans</p> <p>Vehicle leasing</p> <p>Total Long term liabilities</p> <p><u>Current Liabilities (Y)</u></p> <p>Temporary loans from friends/ relatives</p> <p>Other short term loans</p> <p>Total Current liabilities</p> <p>Total Outside Liabilities (A+B)</p>	
<p><u>Net Assets/ Equity/ Capital/ Wealth</u></p> <p>(Total Assets - Outside Liabilities)</p>	

Name:

Date:

Important:

- ✓ Potential entrepreneur should have the legal ownership of personal assets. Assets which are under the ownership of parents or another cannot be included in the balance sheet, although they are his future property.
- ✓ For some persons, the balance sheet value can be zero. It is o.k. What we want to examine is the current status of my wealth.
- ✓ After two years, we can prepare our personal balance sheet again and compare our wealth to see how it has moved. When preparing the personal balance sheet after two years, because our business is ongoing, business net worth can be added to the wealth indicated in the balance sheet to find out the total net worth. Net worth is another term for net wealth.

PERSONAL CASH-FLOW

It is important to know how money comes in and goes out every day, every week and every month. The record which shows this money movement is known as “Cash-flow”. Let’s see how we can record our forecasted cash-flow.

PERSONAL CASHFLOW FORECAST – FOR SIX MONTHS

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Description	Amount (Rs)	Amount (Rs)	Amount (Rs)	Amount (Rs)	Amount (Rs)	Amount (Rs)
Opening balance						
<u>Receipts/Inflows</u>						
From home						
From Income Generating Activity (IGA)						
.....						
Total receipts						

<u>Payments/Out flows</u>						
Meals						
Traveling						
IGA expenses						
Loan						
Repayments						
.....						
Total payments						
Net Cash Flow (Total cash receipts – Total cash payments						
Closing Balance						

We have now assessed our current personal wealth and forecasted cash-flow for next 6 months. Let us now start practicing the following wealth development strategies to develop our wealth.

Wealth Development Strategies



Strategy 1: Reduction of personal expenses

We have a definite purpose of building our wealth. Strong commitment to reduce personal expenses in all possible directions is a must. Our expenses can be categorized in to three types - **Absolutely essential**, **Essential** and **Not essential**. We can reduce a reasonable number of expense lines by some amount if we really want to. We need to think positively about our purpose and prepare a new list of expense lines after deciding the amount that we can reduce from each line.

The below template will help us in this regard.

	Expense line	Current Amount (Rs)	Amount after reduction (Rs)
1	Study fees to the training centre		
2	Meal expenses		
3	Mobile phone		
4			
5			
		Total:	Total:

The difference between these two totals is the amount that we can reduce from expenses. We need to save this money if we want to be successful.

Important guidance:

- ✓ Save this amount in a savings account of a bank. If you don't have, this is the time to start a savings account.
- ✓ It is vital to ensure that the money saved in the savings account is not withdrawn later. Remember, wealth building is the purpose.

Strategy 2: Increasing personal income

We may not have any personal income generating avenues at present. But, again, this is a necessary step to strengthen our path for entrepreneurship. Each of us should think about an actionable income generation activity while pursuing this training. It can be a part-time micro business activity and it will satisfy two purposes. Main purpose is to earn some money as a profit to support our wealth creation task.

The other is to get a very basic first-hand experience about doing businesses.

Important:

- ✓ It should be an income generation activity we can do without sacrificing our main training.
- ✓ It should be something we can start with a minimum capital.
- ✓ The profit should be saved in the personal savings account.

Example: Minhaj is a potential entrepreneur. He is in the process of building his wealth. As learnt during his business start-up training, he managed to start a monthly saving of Rs.800.00 from his expenses. To increase his savings, he started an income generation activity of buying tea leaves in bulk from a tea estate and supplying it to the neighbourhood on retail basis. He used to buy 10 kg every month at Rs. 800.00 per kg. Selling price is Rs. 1,000.00 per kg. Other expenses associated with the business include Rs. 200.00 as the telephone charges and Rs. 300.00 as the traveling cost. Thus, he manages to earn a net profit of Rs.1,500.00 every month. The following template helps us to understand how we can calculate the net profit from a micro level business of this type.

Net profit calculation template for the income generation activity

Net profit calculation – Trading of tea leaves during the period(Month and the year)

	Rs.
Income – trading tea leaves (10kg x Rs.1,000.00 per kg)	-10,000.00
Less:	
<u>Direct cost</u>	<u>Purchasing</u>
cost - (8,000.00) (10kg x Rs.800.00 per kg)	
Gross profit	- 2,000.00
<u>Other expenses / Indirect cost</u>	
Telephone charges - 200.00	
Traveling cost - 300.00	- (500.00)
Net profit	- <u>1,500.00</u>

We can use the same template to calculate our monthly income from the income generation activity.

Assignment: Start a small income generation activity and save the profit of it in the savings account.

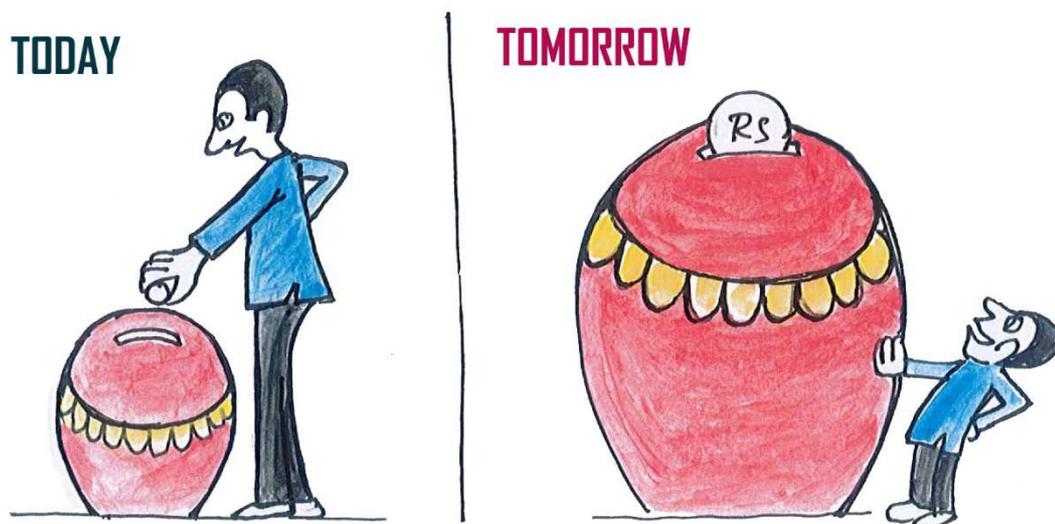
Strategy 3: Start and continue money saving on a regular basis

Saving habits of people in general are weak. Even if they save, their approach starts from spending from the income first. If there is a balance, then they may save. But, in most of the cases, they find new purchase requirements if there is a balance. Hence the saving formula of average people looks

But, successful entrepreneurs have a different formula for saving as follows.

$$\text{Income} - \text{Saving} = \text{Expenses}$$

They first allocate the committed amount for saving and then plan how to manage the expenses with the balance. They also ensure that the saving is regular and they do not touch saved money unless it is desperately essential. Ultimate result is the increased amount of savings. Saving is not an option for the growth-bound entrepreneurs, but a necessity.



Learning activity: The trainer will explain step-by-step about the most promising method of money saving. Understand it and complete the following two statements.

- a. I can save Rs..... every hour. It amounts to Rs.per day. I will start saving this amount regularly.
- b. I will have a total saving of Rs..... after 10 years from the start.

As a potential entrepreneur, it is very important to start practicing the saving method you learnt as soon as possible.

Strategy 4: Increasing net profits of the business

This will be applicable only after starting the business. We will be equipped with all relevant skills and knowledge regarding this strategy when we reach the business starting stage.

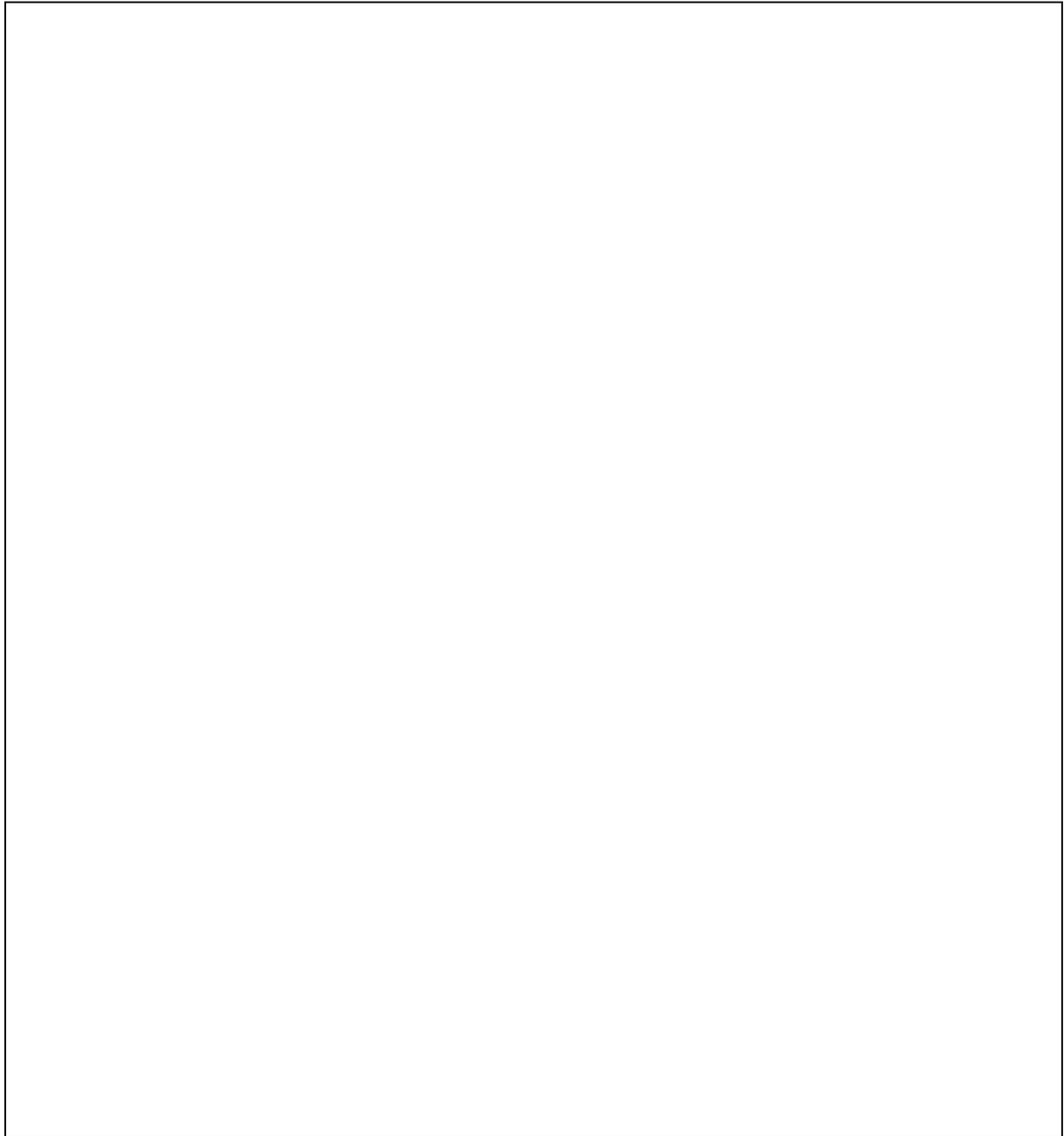
Individual exercise: My Dream Tree

Draw “My Dream Tree” in the space provided below.

It is a graphical presentation of our entrepreneurial success expectation after a certain number of years. We can determine the number of years. Parts of the dream tree are as follows:

Part of the tree	Components related to the individual life
Roots	<p>My strengths, capabilities, opportunities, desires, hobbies, family support, and other positive factors; <i>(These are good roots, and mark them in one colour)</i></p> <p>My weaknesses, gaps, threats, anti-entrepreneurial desires and hobbies, family expectations against entrepreneurial success, and other negative factors; <i>(These are bad roots, and mark them in another colour)</i></p> <ul style="list-style-type: none">- While good roots support healthy growth of my dream tree, bad roots act in the opposite manner. Therefore, it is very important to take action to eliminate or lessen the negative factors as far as possible, while strengthening positive factors.
Top with leaves and fruits	My net wealth; higher social recognition; happy family and similar things.
Trunk	Business start-up training, starting a business and developing it.

My Dream Tree:



.....

.....

.....

.....

.....

.....

1.9 Types of businesses

Businesses in Yatiyana

Yatiyana is a developing area that accommodates 10 – 15 businesses. Most prominent businesses are as follows:

	Business	Owner	Details
1	GREEN PLANET Making compost manure	Fathima	Compost manure making process is continuous. Fathima relies on the past sales and the forecasts. Since the sales are less in April and December, she makes less quantities in those months.
2	DREAM mosquito nets Making mosquito nets	Helen	Helen buys raw material when she gets a confirmed order from the customer. She customized the top frame (round or square) and the net material according to customer requirement. She doesn't stock nets for sale.
3	STAR Furniture Shop Manufacturing furniture	Nelson	Nelson uses a different strategy. He also makes furniture only for confirmed orders. But, he has timber and the other material required. Customers can get their product made within a short period because raw material is available with Nelson.
4	CHAYA Beauty Salon Hair dressing and beauty culture services	Achala	Achala has a clientele. She provides a professional service of hair dressing, floral arrangements, bridal dressing etc.
5	GAME KADE Large grocery store	Raju	Game Kade has all types of commodities and consumer items required by the area community. Raju buys them from wholesalers and manufacturers.

Three main types of businesses

In general, any business falls in to one of the following categories.

- a. Manufacturing
- b. Service
- c. Trading (Buying and selling)

Prominent businesses operating in Yatiyana depict all three types. Businesses 1, 2 and 3 are manufacturing businesses. But, we can see that three different strategies are used in them although all are in manufacturing sector. Business 4 is a service business while the last business of Game Kade is a buying and selling business, or a trading business.

It is important for a potential entrepreneur to understand all these differences. Each type has advantages and disadvantages. Let's understand them in more details.

1.9.1 Manufacturing businesses

As we observed in the above example, the production and marketing strategies can vary in 3 different ways in a manufacturing business. They are known as,

- ✓ Make to stock (MTS)
- ✓ Make to order (MTO)
- ✓ Make to assemble (MTA)

Make to stock (MTS)

Green Planet (business 1) falls in to this category. In such businesses, entrepreneur relies on past sales data to forecast consumer demand and plan the production accordingly. There are no readily available customers or confirmed orders. Drawback is the possibility of stock excesses or shortages.

Make to order (MTO)

Helen's DREAM Mosquito Nets (business 2) falls in to the MTO category. In such businesses, entrepreneurs manufacture only on confirmed orders. They don't manufacture and stock items. In fact, they buy the raw material only after the order confirmation. Hence, no stock excesses or shortages can take place. But, customer waiting time is more.

Make to assemble (MTA)

Start Furniture Shop (business 3) uses MTA strategy. In such businesses also, entrepreneur starts manufacturing only on order confirmation. But, he / she has raw material required. The drawback here is that unwanted parts or raw material has a cost. However, customer waiting time is short.

Specific features of a manufacturing business

- a. Having production flow chart
- b. Having factory layout planning
- c. Need to construct factory location bed on the government rules and conditions
- d. Opportunities for long term contracts
- e. More skilled and unskilled workforce than the other nature of businesses
- f. Approach to supply chain integration
- g. Extent of information sharing
- h. Access to production planning and technology planning
- i. Product research and development activities
- j. New product development related activities
- k. Possibility to apply for international and local product quality certifications

1.9.2 Service businesses

Let's focus our attention to Achala's CHAYA Beauty Salon. It provides a range of services. Such businesses are service businesses. Like manufacturing businesses offer tangible products, service businesses offer services to their customers. Services are also products, but intangible, no physical form. Most valuable inputs in producing a service are professional or technical skills, expertise, and methodologies.

Characteristics of a service business

a. Perishability

Service is highly perishable and time element has great significant in service marketing. A service can't be stored.

b. Fluctuating demand

Product demand also can fluctuate. But, service demand is fluctuating in a high degree.

c. Intangibility

Unlike product, service can't be touched or sensed, tested or felt before they are completed. A service is an abstract phenomenon.

d. Inseparability

Personal services can't be separated from the individual.

Example – Hair cut is not possible without the presence of an individual. A doctor can only treat when his patient is present.

e. Heterogeneity

Non-uniformity in quality or standards, and the service fee (price) are features in service businesses. A product quality can be physically tested and it is the same for a single manufacturing process. But, service is created for individual customers and rendered separately. Quality can differ from case to case. A doctor can charge much higher fee to a rich person and a much low fee to poor patient for a similar service.

f. Pricing of services

Pricing decision about services are influenced by perishability, fluctuation in demand and inseparability. Pricing of service is depended on demand and competition where variable pricing may be used.

1.9.3 Trading businesses

Merchandising business, and buying and selling business are synonyms to trading business. This is easiest type of business to start. There is no manufacturing process or service creation process here. Basically, such businesses buy products from wholesalers at whole sale price and sell at retail price without making any change to the product. The difference of prices is the Gross Profit Margin. There are some other costs or expenses

involved in doing the sale. When the relevant cost is deducted, that margin is called the Net Profit Margin.

Generally, the governments don't encourage or provide special business support schemes for buying and selling businesses.

1.10 Legal modes of businesses



Business registration

We need to register our businesses to get legal permission to carry out business activities. There are different legal modes of businesses permitted in Sri Lanka. Each mode has its advantages and disadvantages in comparison to the other modes. Similarly, the entrepreneur can decide what legal mode is more appropriate for his/ her business depending on some factors, including level of the business, nature of it, business objectives, advantages of the particular business mode etc. Depending on the mode, businesses can be registered with either local Divisional Secretariat Office or the Office of Registrar of Companies located in Colombo. The registration procedure differs with the mode of registration.

Three basic forms of business registration

In respect of the private sector businesses, there are three basic forms of business registration as follows.



Business registration mode 1: Sole Proprietorship

Features:

1. A significant number of small businesses start out as sole proprietorship entities.
2. The business is owned and managed by an individual.
3. The single owner should carry out the total business operation – planning, organizing, resource mobilizing, arranging finances etc.
4. Owner is the decision maker in all aspects.
5. He / she owns the assets of the business.
6. He / she owns the profits generated by it.
7. Owner and the business becomes a single entity in the eyes of the law and the public.

Advantages:

- ▶ This is the easiest and least expensive mode of registration to organize.
- ▶ Owner is in total control of the business and has the freedom to take appropriate decisions within the boundaries of the law.
- ▶ All income generated by the business belongs to the owner.
- ▶ It is easy to dissolve the business, if desired.

Disadvantages:

- ▶ The total liability of the business is on the shoulder of the sole proprietor, and he / she is personally responsible for all debts against the business in front of the law. Business and personal assets are at risk in case of liability issues.
- ▶ Raising funds for business operation may be at a disadvantage and the owner is often compelled to using funds from personal savings or consumer loans.
- ▶ Attracting high quality, experienced employees is difficult.

Business registration mode 2: Partnership**Features:**

1. Ownership is shared by two or more persons. They are called business partners.
2. This mode is also on par with sole proprietorship. Law does not distinguish between the business and its owner partners.
3. It is important for the partners to have a legal agreement that specifies the following:
 - Ownership share of each person
 - Contribution of each in terms of time, expertise, and capital formation
 - Profit share entitlement of each partner
 - Scope of operational responsibility
 - Method of dispute resolution
 - Method of admission of future partners
 - Basis of partner removal – forced and voluntary

Advantages:

- ▶ Partnership businesses are also relatively easy to establish; however, time and effort should be invested in developing the partnership agreement.
- ▶ Fund raising ability is increased with the increased number of owners.
- ▶ The business can benefit from partners who have complementary skills.

Disadvantages

- ▶ Partners are jointly and individually responsible for the total liabilities and debts of the business.
- ▶ Partners are jointly and individually liable for the actions of the other partners within the business context.
- ▶ Profits must be shared with other partners.
- ▶ Disagreements can occur because decisions of several partners should be considered.
- ▶ There can be limitation factors for the life period of a partnership business; it may end upon the withdrawal or death of a partner.

Business registration mode 3: Private Limited Companies

Introduction:

'Private limited company' mode is the more advanced form of business registration. Unlike the sole proprietorship and partnership businesses, private limited company is considered as a separate legal entity by law. Under the new companies act, even ONE shareholder can register a limited liability company. An entrepreneur has to follow the standard procedure to register private limited company. Registration authority is the Registrar of Companies. Such a company should have directors and a secretary. Basic features of this mode are given below.

Features:

1. Shareholders– A minimum number of 1 shareholder up to a maximum number of 50 shareholders can start a private limited company as per the provisions of the Companies Act.
2. Directors– Directors are appointed from shareholders. A private company needs to have at least one director. The number of directors can be decided according the necessity of the company.
3. Limited Liability– The liability of each shareholder is limited. It means that if a private limited company is required by the law to settle a liability under any circumstances, its shareholders are liable to settle it using company owned assets, but their personal

assets are exempted. Therefore, personal individual assets of the shareholders are not at risk.

4. Name– It is mandatory for all the private companies to use the term **private limited** after its name.
5. Perpetual succession– The Company keeps on existing in the eyes of law even in the case of death, insolvency, the bankruptcy of any of its members. This leads to the perpetual succession of the company. The life of the company keeps on existing until the legal liquidation is done.
6. A private company should have a company secretary.
7. Keeping accounts and performing an annual audit are statutory requirements.

NOTES -

