ENTREPRENEURSHIP:
A Youth Guide to Starting & Operating a Small Business

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WHAT IS ENTREPRENEURSHIP?

Let’s consider the following questions:
• What is the difference between employees and entrepreneurs?
• How do entrepreneurs create value from “scarce” resources?
• Why do entrepreneurs like change?
• What are the pros and cons of owning your own business?

Think Like an Entrepreneur

Entrepreneurship is so much more than just learning to run your own business. It is an approach to life that involves thinking of yourself as a “can-do” person. After all, if you can start your own business, you can do just about anything!

When you work for others, you can still think like an entrepreneur. Let this motivate you to do your best on the job:
• Always look for opportunities to learn new skills and take on new responsibilities.
• Show your employer that you understand business and are working to improve the profitability of the company.

Employers notice (and often promote) employees who think entrepreneurially. Remember, every skill learned is yours to take to another job, or to your own business. Never stop learning.

Entrepreneurs do three important things:

1. They listen. By listening to others, entrepreneurs get ideas about improving a business or creating a new one.
2. They observe. By constantly keeping their eyes open, entrepreneurs get ideas about how to help society, about businesses to start, and about what people need.
3. They think. When entrepreneurs analyze a problem, they think about solutions. What product or service could solve it?

Employees vs. Entrepreneurs

Most Americans earn money by working in business: the buying and selling of products or services in order to make a profit. A person who earns a living by working for someone else’s business is an employee of that business.

There are different kinds of employees. At Ford Motor Company, for instance, some employees build the cars, some sell the cars, and some manage the company. But employees all have one thing in common - they do not own a business, they work for others, who do.

Some people start their own businesses and work for themselves. They are called entrepreneurs. Entrepreneurs are often both owners and employees.

Profit is the money a company has left after expenses and taxes have been paid. As owners, entrepreneurs are in control of the profit made by their businesses.

An entrepreneur is responsible for the success or failure of his or her business. A successful business sells products or services that customers need, at prices they are willing to pay. Of course, the prices must also be high enough for the entrepreneur to be able to cover all the costs of running the business, and have money left over as profit.

Seeing Yourself as an Entrepreneur

Nobel Prize-winning scientist Linus Pauling wrote: The best way to get good ideas is to have lots of them. Successful entrepreneurs know it is important to capture creative ideas and thoughts. To get into this practice, start an “Idea Journal”:
• Carry a pocket-sized notebook with you at all times.
• Using your listening, observing, and thinking skills, make a habit of writing down any entrepreneurial ideas you have for meeting consumer needs or solving business problems.
• Describe briefly every positive encounter you have with a business.
**Big and Small Business**

The public often thinks of business only in terms of “big” business - companies such as Ford, Microsoft, McDonald's, and Nike. A big business is defined by the Small Business Administration as having more than 100 employees and selling more than $1 million worth of products or services in a year.

Most of the world’s businesses are small businesses. A babysitting service and a neighborhood restaurant are examples of small businesses.

Surprisingly, the principles involved in running a large company and a small one are basically the same. In fact, most multimillion-dollar businesses in this country started out as small, entrepreneurial ventures.

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**A Business Must Make a Profit to Stay in Business**

No matter how big or small, a business must make a profit to stay “in business.” The amount of money coming in must be greater than the amount of money required to pay the bills. Many ventures do lose money after start-up because they have had to lay out cash to set up operations, and on advertising to attract customers. If the business continues not to be profitable, however, the entrepreneur will be unable to pay the bills and will eventually have to close.

Closing a business is nothing to be ashamed of; in fact, most successful entrepreneurs open and close more than one business in their careers. If your venture is not making a profit after you’ve gotten it up and running, it could be a signal that you are in the wrong business. Closing it might be the smartest decision.

An entrepreneur may change businesses many times over the years, in response to changing competition and consumer needs.

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**Profit Is the Sign that the Entrepreneur Is Adding Value**

If your business is making a profit, you are clearly doing something right. Profit is a sign that an entrepreneur has added value to the “scarce” (limited) resources he or she is using. A resource is something of value that can be used to make something else or to fill a need. Oil is a resource because it is used as fuel. Wood is a resource, too, because it can be used to make a house or a table or paper. All resources are limited.

Debbi Fields, the founder of Mrs. Fields Original Cookies, took resources - eggs, butter, flour, sugar, chocolate chips, and labor - and turned them into cookies. People liked what she did with those resources enough that they were willing to pay her more for the cookies than it cost her to buy the ingredients. In other words, she earned a profit. The profit was her signal that she was doing something right - she was adding value to the resources she was using.

By the same token, losing money is a sign that the entrepreneur is not using resources well and is not adding value to them.

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**Voluntary Exchange**

The free enterprise system is also sometimes referred to as a “free-trade system” because it is based on voluntary exchange -- two parties agreeing to trade money for a product or service. No one is forced to trade. Everyone is free to trade. Trading only takes place when both parties believe they will benefit. In contrast, robbery would be an example of involuntary trade.

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**Benefits of Free Enterprise**

We all benefit from living in a free enterprise system because it discourages entrepreneurs who waste resources - by driving them out of business. It encourages entrepreneurs who use resources efficiently to satisfy consumer needs - by rewarding them with profit.

We also benefit because free enterprise encourages competition between entrepreneurs. Someone who can make cookies that taste as good as Mrs. Fields Original Cookies, and sell them at a lower price, will eventually attract their customers. This will force Mrs. Fields Original Cookies to lower its prices to stay competitive. Consumers will benefit because they will pay lower prices.

Entrepreneurs are motivated by competition to find ways to use resources more efficiently, so that they can lower prices but still make a profit.
Entrepreneurs View Change as Opportunity

Debbi Fields is a millionaire today not because she had a great chocolate chip cookie recipe, but because she had noticed that families were changing. Fifty years ago women generally did not work full time outside the house. They stayed home and cooked and cleaned for their families. But in the 1970s more women entered the workforce. Few now had time to bake. Mrs. Fields took advantage of this change. She created cookies that tasted home-baked. The name “Mrs. Fields Original Cookies” reminded the consumer of coming home to Mom and a plate of freshly baked cookies. Debbi Field’s business probably would not have succeeded if women had not begun working away from home.

Ownership is the Key to Wealth

Entrepreneurs make money from the profits their businesses earn—hopefully, every year. An entrepreneur can also become very wealthy if the business succeeds and grows and then someone buys it. Let’s say your company earns a profit of $20,000 per year. Someone might be willing to buy it for several times that amount, because they will expect it to keep earning at least that much. As the original owner, you not only keep a share of the yearly profits, but you’d also now make a profit on your investment by selling the business. You can take the money from the sale and use it to start a new business. This is how entrepreneurs can create great fortunes.

Ownership is the key to wealth. Top executives at large corporations may make millions of dollars, but that money is not just salary. They have negotiated payment packages that include stock in the company. In other words, they have become partners. Even if you decide not to start your own business, think like an entrepreneur throughout your career—work hard, show your employer that you are key to the company’s profitability, and try to become an owner. Once you’re an owner, you’ll be entitled to share in the profits.

Living a Life You Will Love

More important than money, however, is having a career you truly enjoy. What do you love to do? What interests you most?

Russell Simmons was a young man in Hollis, Queens, who loved hip-hop. He turned his passion for hip-hop into Def Jam Records. Today, he owns a multimillion-dollar enterprise that includes all the Def Jam businesses, Phat Farm clothing, and Rush Management. Becoming an entrepreneur has provided Simmons with:

1. **Wealth** - His enterprises are worth many millions.
2. **Influence** - Simmons has become a force in politics, promoting voter registration drives among young adults.
3. **Control** - Simmons is in charge of his money and his time. As the owner of his companies, he chooses how much of the profits to keep for himself, how he spends his time, and what he does with his wealth.

Simmons poured his time, money, and energy into starting Def Jam. He postponed immediate pleasures to create a business that would provide rewards in the future.

Why Be an Entrepreneur?

There are both pros and cons of being an entrepreneur:

**Some Disadvantages:**

Entrepreneurs often put more time into launching their own businesses than many people put into their jobs. While establishing a business, an entrepreneur may also invest a lot of money in the business. He or she may not be able to buy new clothes or a fancy car, or go on vacation. Other disadvantages are:

1. **Business failure** - Many small businesses fail. You risk losing not only your own money but also that of investors.
2. **Obstacles** - You will run into unexpected problems that you will have to solve. In addition, you may face discouragement from family and friends.
3. **Loneliness** - It can be lonely and even a little scary to be completely responsible for the success or failure of a business.
4. **Financial insecurity** - Your earnings may rise or fall depending on how the business is doing. You may not always have enough money to pay yourself.
5. **Long hours/hard work** - You will have to work long hours to get your business off the ground. Some entrepreneurs work six, or even seven, days a week.

**Some Advantages**

If so much work and sacrifice and uncertainty are involved, why be an entrepreneur? The entrepreneur works for the following rewards:

1. **Control over time** - Entrepreneurs do not have to operate on anyone else’s clock. If you start your own business, you can work flexible hours. You can also hire other people to perform tasks that you don’t want to do or aren’t good at, so you can focus on what you do best.
2. **A creative, fulfilling life** - Successful entrepreneurs are passionate about their businesses. Entrepreneurs are almost never bored. They enjoy both the freedom and the responsibility of being “the boss.”
3. **The opportunity to create great wealth** - Ownership is the key to wealth. If you work for someone else, you are selling your time and effort in exchange for money. You are paid only for the work you do. If your work helps to make the company successful, the owner, not you, will receive the greatest rewards. Owners benefit from both higher profits earned and from the increasing value of the business as it grows. Ownership is how great fortunes are made.
4. **Control over compensation** - Entrepreneurs get to decide how they are paid. As owner of your company you can decide to:
   - **Pay yourself a salary** - a fixed payment made at regular intervals, such as every week or month.
   - **Pay yourself a wage** - a fixed payment per hour.
   - **Take a dividend** - As the owner, you can choose to be paid as if you were an employee (salary or wage) or you can simply pay yourself a share of the business’s profits. This kind of payment is called a dividend.
   - **Take a commission** - A commission is a percentage of the value of a sale. If you decide to pay yourself 10% commission and you sell an item for $1000, your commission on the sale would be $100.

5. **Control over working conditions** - As an entrepreneur you can create a working environment that reflects your values. You can make sure your company recycles, for example.
6. **Self-evaluation** - Entrepreneurs evaluate their own performances. If you own your own company, no one else can hire or fire you. Some of the greatest entrepreneurs in the world might not have been able to succeed if they hadn’t started working for themselves. Richard Branson had such severe dyslexia that he dropped out of high school. He became an extremely successful entrepreneur, however, creating Virgin Airlines and Virgin Records, among many other companies.
7. **Participation in an international community** - The Internet allows entrepreneurs to compete and make deals all over the world. Institutions like the World Entrepreneurs’ Organization (WEO) help young businesspeople get in touch with each other.
8. **The opportunity to help one’s community** - Entrepreneurs create jobs for people in their communities. In addition, many of the world’s great museums, libraries, hospitals, and other important institutions and facilities have been founded and supported by entrepreneurs. Entrepreneurs give away many millions of dollars each year to help others and support the arts. Even if your business never earns millions, you can still donate money and time to make your community a better place.
The Building Block of Business: The Economics of One Unit of Sale

Entrepreneurs use profits:
1. To pay themselves.
2. To expand their businesses.
3. To start other businesses.

Every entrepreneur, therefore, needs to know how much gross profit (price minus cost of goods sold) the business will earn on everything it sells. To do this, entrepreneurs study the economics of one unit of sale (EOU).

Let’s begin with the unit of sale, which is one unit of the product or service a business sells. Entrepreneurs usually define their unit of sale, depending on the type of business, in the following ways:

- Retail: One unit or item (i.e. one watch)
- Manufacturing: One order (any quantity)
- Service: One hour of service time or a standard block of time devoted to a task (i.e., one hour of lawn-mowing service)
- Wholesale: A dozen of an item (i.e. 12 watches)
- Combination: A combination of different items expressed as the average sale per customer (minus the average cost of goods sold per customer).

The Four Types of Business

There are four types of business, and each has a slightly different way of figuring its economics of one unit:

1. Manufacturing - makes a tangible product (you can literally touch it). A sneaker manufacturer makes sneakers but does not necessarily sell them to individual consumers.
2. Wholesale - buys the sneakers in large quantities from the manufacturer and then sells smaller quantities (typically in dozens) to shoe stores.
3. Retail - retail shoe stores sell the sneakers one pair at a time to consumers.
4. Service - a service business sells intangible products (you can’t actually touch them). A personal trainer, for example, sells his or her expertise to help people exercise.

Cost of Goods Sold for One Unit

The cost of goods sold (COGS) can be thought of as the cost of selling “one additional unit.” If you buy watches and then resell them, your cost of goods sold per unit is the price you paid for one watch. Once you know your cost of goods sold, you can calculate gross profit by subtracting the COGS from your revenue:

Let’s say you can buy watches for $3 each at a wholesaler who will give you that price if you buy at least a dozen at a time. Your unit of sale is one watch. Your cost of goods sold is $3 per unit.

If you are able to sell ten watches at $10 each, your gross profit per unit will be $7. Here’s how you would calculate your total gross profit:

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\begin{align*}
\text{Total Revenue} &= 10 \text{ watches} \times 10 \text{ selling price} = 100.00 \\
\text{Total Cost of Goods Sold} &= 10 \text{ watches} \times 3 \text{ COGS} = 30.00 \\
\text{Total Gross Profit} &= 100.00 \text{ revenue} - 30.00 \text{ COGS} = 70.00 \\
\text{Total Revenue} - \text{Total Cost of Goods Sold} &= \text{Total Gross Profit}
\end{align*}
\]

The Economics of One Unit of Sale is a way to examine a snapshot, or model, of your whole business. If one unit of sale is profitable, the whole business can be profitable, too. On the other hand, if one unit of sale is not profitable, then no matter how many units you sell, your business will never be profitable. The economics of one unit of sale (commonly referred to as the “economics of one unit”) is the price of the unit, minus the cost of goods or services sold. This number is equal to gross profit per unit. Total gross profit equals the number of units sold times the gross profit per unit.

If the business sells a combination of differently priced items (such as in a restaurant), the unit of sale is more complicated. The entrepreneur can use the average sale per customer, minus the average cost of goods sold per customer, to find the economics of one unit of sale. The formula would be:

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\text{Average sale per customer} - \text{Average cost of sale per customer} = \text{Average gross profit per customer}
\]

For a manufacturing business, one unit might be one pair of sneakers. The costs would include the money paid to the people who make the sneakers (the labor) and the supplies - such as fabric, rubber, and leather.

The manufacturer makes a gross profit of $3.00 for every pair of sneakers sold. That may not seem like much, but manufacturers sell in bulk. In other words, a manufacturer might sell several million pairs of sneakers per year. (For example: selling price $15 - $12 for labor & materials = $3 profit)

The economics of one unit also applies to wholesale, retail, and service businesses. Let’s say the wholesaler buys each set of one dozen pairs of sneakers from the manufacturer for $180 and can sell them to the retailer for $240. The gross profit will be $60.

The retailer pays the wholesaler $240.00 for one dozen pairs of sneakers. The retailer’s COGS, therefore, is $20 ($240 divided by 12). The store sells each pair to its customers for $35 and makes $15 profit per shoe for a gross profit of $180.
Five breakthrough steps entrepreneurs can take are:

1. Calculating the unit of sale.
2. Determining the economics of one unit of sale.
3. Substituting someone else’s labor.
4. Trying to sell in volume
5. Creating jobs and operating at a profit.

The Cost of Labor in the EOU

Janet is a 10th grade student in an entrepreneurship class. She has a business making greeting cards and her unit of sale is one card. Below is additional information about the business:

- She sells ten cards per week to people in her neighborhood.
- Her selling price is $4.50 each, including an envelope.
- Her costs are 80 cents per card for materials (construction paper, glue, and paint) and 20 cents each for the envelopes.
- On average, it takes her 15 minutes to make each card.
- Janet wants to pay herself $6 an hour. It takes her one hour to complete four cards. So the labor for each card is $1.50 ($6 divided by 4). Janet wisely realizes that she must include the cost of her labor in the economics of one unit. See how she did this in the chart below.

ECONOMICS OF ONE UNIT
Manufacturing Business: Unit = 1 card

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selling Price Per Unit</td>
<td>$4.50</td>
</tr>
<tr>
<td>Materials:</td>
<td>$1.00</td>
</tr>
<tr>
<td>Labor:</td>
<td>$1.50</td>
</tr>
<tr>
<td>Cost of Goods Sold Per Unit</td>
<td>$2.50</td>
</tr>
<tr>
<td>Gross Profit Per Unit</td>
<td>$2.00</td>
</tr>
</tbody>
</table>

Janet receives $3.50 per card after paying for materials. Her compensation includes $1.50 per unit for her labor and $2.00 for her gross profit per unit. The wage of $1.50 is a reward for her labor. The $2.00 is the profit for being an entrepreneur.

Hiring Others to Make the Unit of Sale

Janet meets a greeting card wholesaler. He offers to buy 2,000 cards if Janet can deliver them in one month and sell them at $3.50, $1 less than she had been getting for them. Three questions immediately came to her mind:

1. Can I produce the 2,000-unit order in the required time frame?
   After doing some calculations, Janet realized that if she hired ten people each to work 50 hours a month, she could deliver the order in time. Janet convinced ten people to take on the one-month, 50-hour commitment.

2. If I lower the price to $3.50 for each card (instead of $4.50), will I still make an acceptable gross profit per unit?
   Based on her EOU, Janet realizes she will make $1 gross profit per unit.

3. How much in total gross profit will I make from the order?
   At $1 gross profit per unit, Janet will make $2,000.

Going for Volume

Janet meets a greeting card wholesaler. He offers to buy 2,000 cards if Janet can deliver them in one month and sell them at $3.50, $1 less than she had been getting for them. Three questions immediately came to her mind:

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Lessons to Be Learned

Janet concluded that $2,000 in one payment was much better than earning $20 a week in gross profit and $15 a week for her labor - based on a volume of ten cards a week at a selling price of $4.50. When Janet realized that she could deliver the order in the required time and make $2,000, she accepted the offer.
Return On Investment: Evaluating Education, Work, and Business

Investment
When you start your own business, you are giving time, energy, and money to an investment - your business, in this case. You do this because you believe that someday your business will earn more than the value of the time, energy, and money you put into it. This kind of analysis is calculating return on investment, or ROI.

Return on Investment (ROI)
Let’s say you want to set up a lemonade stand on a hot summer day. To get the business started you will have to buy lemonade mix, paper cups, and napkins. These supplies will cost you $5. Since you have put your own money into the business to get it going, the $5 is an investment.

By the end of the day, you have sold $20 worth of lemonade, and used up the supplies. Your initial investment was $5 and you got back $20. You now have the amount of your original investment, plus $15 ($5.00 + $15.00 = $20.00). The additional $15 is the return on your investment.

ROI is usually expressed as a percentage. In this case it would be: $15.00 (Net Profit) divided by $5.00 (Investment) = 3. As a percentage, it is expressed as 300% ROI.

Risk is the Chance of Losing Your Money
Unfortunately, some investments lose money. Risk means the chance of losing your investment. When you buy $50 worth of assorted jewelry wholesale, or some other product, to sell for $100, you risk not being able to sell it. You could lose your $50, plus the time and energy you invested.

Risk and Returns Are High in Small Business
The rate of return on a small business can be very high, if the business takes off and does well. Unfortunately, the risk of failure for most small businesses is also very high. Remember, the higher the risk of the investment, the higher the required rate of return that investors will expect.

Good business planning and adequate financing (with little debt) help reduce risk for a small business. Other factors that can make a small business less risky for the entrepreneur are:
1. Small scale: When the amount invested is small, you won’t need as much profit to get a good ROI.
2. Quick decision making: Small businesses can solve problems and meet customer needs faster than larger ones.
3. Industry knowledge: If the entrepreneur is an expert (or becomes one) in the business, he/she is in a better position to spot warning signs and stay out of trouble.

Measurable Goals: Be SMART
To track your goals and know when you are achieving them, make sure your goal statements are “SMART”:

Specific: The goal statement is precise and explains what you hope to achieve in detail.

Measurable: The goal statement is clear and can be evaluated.

Attainable: The goal statement is realistic, yet offers a challenge.

Relevant: The goal is meaningful and important to your business or personal life.

Time-Bound: The goal has a time frame and includes a completion date.

To say, “I will network to make more business contacts,” is not a SMART goal because it is not specific and has no time frame. A SMART statement for this goal might be: “By April 30, I will make five new banking contacts and get their written comments on my business plan.”

Using the examples above, write down three SMART statements for personal or business goals you would like to accomplish over the next six months.
Where Others See Problems,
Entrepreneurs Recognize Opportunities

Many famous companies have been started because an entrepreneur wanted to solve a problem. Entrepreneurs recognize that a problem can be a business opportunity.

Georgette Klinger founded her world-famous skin-care company because she had acne. Anita Roddick started The Body Shop — a cosmetics company that uses natural ingredients and recycles its bottles and jars — because she was tired of paying for expensive fancy packaging when she bought makeup.

Bill Gates was another problem solver. Before he started Microsoft, most software was too complicated and confusing for the average person to use. Gates solved this problem by creating software that was fun and easy to use. In the process, he became one of the richest people in the world.

Entrepreneurs love change because it presents them with new opportunities. Consider the Internet. Most experts believed that telephone companies were going to dominate this new technology, but entrepreneurs like Jerry Yang, who started Yahoo!, and Steve Case, who founded AOL, quickly took over. The phone companies were too big and slow to adapt to the new technology.

It can take a large corporation six years to create a new business. Entrepreneurs are leaner and faster. Small, entrepreneurial companies like Earthlink beat giants like AT&T and signed up millions of customers for Internet services.

Use Your Imagination to Create Opportunities

Businesses are also created when entrepreneurs imagine products or services they wish existed. You can jump-start your imagination by asking yourself (and your friends) questions like:

- What is one thing you would like to have more than anything else?
- What does it look like?
- What does it taste like?
- What does it do?

An Idea Is Not Necessarily an Opportunity

There is one important difference, however, between an idea and an opportunity. An opportunity is based on what consumers want, not necessarily on what you want. You can have a very interesting idea for a business, but if what you’re selling doesn’t meet anyone else’s needs, the business will fail.

You will also need to be able to get your business up and running in your “window of opportunity.” This is the amount of time you have before someone else beats you to the customers. You might have a great idea, but if competitors have had the same idea and get it to the marketplace first, your window of opportunity will have been closed.

A business idea may be a good opportunity if:

- It meets a consumer need.
- You have the resources and skills to create the business, or you know someone who does and who could start it with you.
- You can supply the product or service at a price that will be attractive to customers yet will be high enough to earn a profit.
- The business will work in your community. Do you actually know customers who can afford your product or service? Who will want it?
- You can get it up and running before the window of opportunity closes.
- It is sustainable, meaning you can keep it going for some time.

Look at Problems to See Opportunities

To become an entrepreneur who can recognize business opportunities, ask yourself such questions as:

- What would I like to buy that I can never find?
- What product or service would improve my life?
- What really annoys me? What product or service would help?

Thinking Skills: Problem Solving

Think of a problem that you would like to solve in order to create a business opportunity. Use the following six-step problem-solving process to write an action plan.

1. Identify the problem. Define it clearly and honestly.
2. Brainstorm as many ideas as possible for solutions.
3. Evaluate the solutions. Consider the pros and cons of each idea.
4. Select the best solution and develop a plan for how you will carry it out.
5. Carry out the solution, but be ready to change your plan if necessary.
6. Evaluate the results of your decision honestly. If the solution is not working, begin the process again to develop a new one.

Changing Trends Are also Opportunities

Problems are just one example of opportunities that entrepreneurs need to be able to recognize. Changing trends are also opportunities.

In the late 1980s, for example, Russell Simmons was promoting rap concerts at the City College of New York. At the time, rap was considered a passing fad. Rock music dominated radio and record sales. Simmons believed in rap, though. He formed Def Jam Records with fellow student Rick Rubin for $5,000. They produced hit records by Run DMC and LL Cool J.

Simmons came to be worth over $400 million. He has started many businesses based on opportunities he saw in the hip-hop culture he loves — including not just Def Jam Records, but also television shows like Def Comedy Jam and the Phat Farm clothing line.

Simmons applied one simple principle: If you personally know ten people who are eager to buy a product or service, there are probably ten million who 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. Their business was also helped by the fact that they each knew different artists and had different contacts in the recording industry.

Everyone you know is a potential opportunity to form a business. Your friends or family members may have skills, equipment, or contacts that would make them valuable business partners.

Let’s say you would like to start a T-shirt business, but you’re not an artist. If you have a friend who is, the two of you could start the venture together. Or maybe you would like to form a DJ business, but you only have one turntable. If you formed the business with a friend, you could share equipment and records.

Cost/Benefit Analysis
Every opportunity will require an investment. As we have learned, an investment is something into which you put money, time, or energy, because you hope to earn a return. Your return could be profit, personal satisfaction, or something else that is important to you.

How can you decide if you want to invest your time, energy, or money? Cost/benefit analysis is the tool for doing just that.
Before making any investment, look carefully at two factors:
Costs - money and time you will have to invest, and
Benefits - the rate of return on your money or the advancement of your business or career.
If the benefits outweigh the costs, the investment will probably be worthwhile.

Opportunity Cost
Cost/benefit analysis can be inaccurate, however, without a close look at opportunity cost. This is the cost of your next-best investment. Opportunity cost is the value of what must be given up in order to obtain something else.

People often make decisions without considering the opportunity costs, and then wonder why they are not happy with their decisions. Each time you add up the costs of an investment, include the cost of the opportunities you are giving up.

The Value of Your Time
If you were to start a business, what would your opportunity cost be? In other words, what would be the next-best use of your time? How much money could you make working, instead? The answer to this question will give you a rough idea of how to value your time when you start a business and decide how much to pay yourself.

The Six Roots of Opportunity in the Marketplace
1. PROBLEMS that your business could solve.
2. CHANGES in laws, situations, or trends.
3. INVENTIONS of totally new products or services.
4. COMPETITION - If you can find a way to beat the competition based on price, location, quality, reputation, reliability, or hours, you can operate a very successful business with an already existing product or service.
5. TECHNOLOGICAL ADVANCES - Scientists may invent new technology, but entrepreneurs must figure out how to market it.
6. UNIQUE KNOWLEDGE - You have unique knowledge of your neighborhood, your friends, and your community. When Simmons began promoting rap, he knew it was very popular in his neighborhood. That gave him an edge over record company executives who didn’t live in urban areas and weren’t aware of rap’s potential.

SWOT Analysis
Another way to evaluate a business opportunity is to explore its:
Strengths - Your entrepreneurial ability and contacts.
Weaknesses - What you will face, from lack of money or training to lack of time or experience.
Opportunities - Lucky breaks or creative advantages you can use to get ahead of the competition.
Threats - Anything that might be bad for the business, from competitors to legal problems.

This tool can also be used to evaluate your business every few months once you have it up and running. To perform a SWOT analysis, set up a chart and make a list of everything you can think of under each category.

Below, is a SWOT Analysis of an opportunity to start a DJ business with a friend.

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>I’ve worked in a dance record store and know what kind of music people want.</td>
<td>I’m not sure my friend will make a good business partner; he’s often late.</td>
<td>My cousin has already asked me to DJ at a party. My partner knows a DJ who says we can sub for him sometimes.</td>
<td>Some parties might be asked to work at might be in illegal spaces. There are a lot of good DJs in the neighborhood already.</td>
</tr>
<tr>
<td>My partner and I each have good turntables, head-phones and mixers. Together we could create a good system.</td>
<td>We need money to join a record pool so we can get the latest records. We don’t have transportation for our equipment.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Characteristics of the Successful Entrepreneur

Many successful entrepreneurs started small business ventures when they were children. At an early age, they showed some of the characteristics needed for entrepreneurial success. But no one is born with all the characteristics needed for success. If you have drive and perseverance, though, the other traits can be developed. Take a look at the list below. Notice the characteristics you already possess, as well as those you think you could develop.

Adaptability - the ability to cope with new situations and find creative solutions to problems.
Competitiveness - a willingness to compete with and test yourself against others.
Confidence - the belief that you can accomplish what you set out to do.
Drive - the desire to work hard to achieve one's goals.
Honesty - a commitment to refrain from lying; to be truthful and sincere in dealings with others.
Organization - the ability to structure your life and keep tasks and information in order.
Persuasiveness - the knack for convincing people to see your point of view and to get them interested in your ideas.
Discipline - the ability to stay focused and adhere to a schedule and deadlines.
Perseverance - the refusal to quit; willingness to keep goals in sight and work toward them, despite obstacles.
Risk taking - the courage to expose yourself to possible losses.
Understanding - an ability to listen to and empathize with other people.
Vision - the ability to see the end results of your goals while working to achieve them.

Entrepreneurs Are Optimists

You may have noticed that your day goes better when you feel good about yourself and the world. This is an optimistic, or positive, attitude. Entrepreneurs tend to be optimists. They have to be in order to see opportunities where others only see problems. Entrepreneurs view problems as opportunities.

No one is born optimistic, however, and most optimists are that way because they have decided to be so. They know that a positive mental attitude is the key to success.

A Company's Core Beliefs

This section has explored your beliefs about yourself. When you start your own company, what principles will you use to guide it? These will be the core beliefs of your business.

Examples of core beliefs in business might be:
• At Superior Printing we believe in business practices that will affect the environment as little as possible.
• At Sheila's Restaurant we believe in supporting our local organic farmers.
• At David's Wallets, we believe in sharing our financial success with our employees.

Core beliefs can affect your business decisions. The owner of Superior Printing, for example, will choose ink that is less harmful to the environment. Superior Printing may also have a paper recycling program to minimize its paper use. The owner of Sheila's Restaurant will prefer to buy organic fruits and vegetables from local farmers.

Recognizing Strengths: Reflecting on Interests

Do you have the traits (characteristics) of a successful entrepreneur? For each of the following, assess yourself on a scale of 1 to 5 (1 = I do not possess this trait; 5 = I am very strong in this trait). Think carefully about your own strengths and weaknesses, and be truthful in your answers.

<table>
<thead>
<tr>
<th>Energy</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Optimism</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Self-Esteem and Confidence</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Adaptability</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Competitiveness</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Drive and Perseverance</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Honesty</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Organization and Discipline</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Persuasiveness</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Understanding</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Vision</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

Make a list of the traits on which you gave yourself a “3” or lower. These are the characteristics you can try to develop.
• Write a goal statement for how you will develop each of these qualities.
• Involve others. Ask for support from family, friends, coworkers, and mentors.
• Make a strong effort to use these characteristics in your daily activities.
• At the end of each day think about the improvements you’ve made and write about them in a journal.
• Recognize your successes and reward yourself for improvements!
Supply and Demand: How Free Enterprise Works

Free Market Vs. Command Economy

A free enterprise system is an economy in which anyone is free to start a business. This type of economy is also called capitalism, because people are free to use their capital (money) however they choose.

Did you ever wonder who decides how much gasoline costs? Or bread? In a free market economy, what is produced, the price, and the quantity bought and sold are determined by the daily decisions of everyone in the economy.

In a command economy, by contrast, the government sets prices, and tells people where they can work and how much they can earn. Cuba is an example of a country with a command economy.

Most Economies Are a Mix

No country has a purely free market or purely command economy. Governments always control some economic decisions. In the United States, the government controls the postal service. There are also many government regulations business owners must follow.

Freedom of choice, of speech, and ownership are protected by law in the United States, though. Most citizens here have more economic and political freedom than people in many other countries. As a result, many Americans enjoy a high standard of living.

Some countries, such as the former Soviet Union and China, have tried command type economies. These systems failed to keep people happy. Typically, the government ends up using force to make people obey its economic decisions. The Soviet Union finally collapsed and China has been slowly moving toward a more free-market-style system.

Ownership Is Powerful

When you live in a country that protects free enterprise, you can own any business you create. You can keep all the profit from the business, or you can give some away to help others. It’s your choice.

At some point you could decide to sell your business to someone else. Or you could sell pieces - "shares" - of the business to others. You could sell ten percent of the business to a friend, for example. That person would then own ten percent of the company and get ten percent of the profits.

In a capitalist society, you can sell shares of your business to anyone.

The Laws of Supply and Demand Determine Prices

The price of a product is generally determined by the laws of supply and demand. These two forces - supply and demand - interact in a free market to determine prices.

Law of Demand

According to the law of demand, as a price goes up, the quantity demanded by consumers will go down.

Let’s say you get permission to sell soda at a Little League game. During the first half of the game, you charge $2 per can and sell two dozen. During the second half, you lower your price to $1 per can. You sell five dozen cans of soda. The people attending the game have “obeyed” the law of demand.

Law of Demand: If everything else remains the same, people will demand more of something at a lower price than they will at a higher one.

Law of Supply

On the other side of every market is a supplier. The supplier also reacts to price changes. If your business is baking and selling cookies, how many would you be willing to make if you thought they would sell for 25 cents each? What if people were willing to pay $1.00? You would probably work harder to bake and sell more cookies at the higher price.

The entrepreneur who acts in this way is following the law of supply.

Law of Supply: If everything else remains the same, businesses will supply more of a product or service at a higher price than they will at a lower one.

Using the Laws of Supply and Demand to Predict Market Behavior

Understanding the laws of supply and demand will help you predict market behavior. What would you expect to happen to the demand for air conditioners in the summer? What will most likely happen to the price of air conditioners in the summer?

The demand for air conditioners will rise in the summer because more people will want them. Suppliers of air conditioners will be able to raise their prices in late spring because people will be “demanding” this product then. As summer draws to a close, and those who wanted air conditioners have already bought them, the price will probably come down.

Supply and Demand Schedules

George goes to the grocery store to buy apples. How many he will buy depends on the price. If apples cost 90 cents each, George might only be willing to buy one. At ten cents, he might be willing to buy nine.

The owner of the grocery store might be willing to sell (supply) ten apples if he could sell them at $1.00. At ten cents, he only wants to supply one.

A list of how many units of a product consumers are willing to buy at different prices is called a “demand schedule.” Here is a demand schedule for George.

<table>
<thead>
<tr>
<th>Price of one apple</th>
<th>Number of apples George is willing to buy at the price</th>
<th>Price of one apple</th>
<th>Number of apples grocer is willing to supply at the price</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1.00</td>
<td>0</td>
<td>$0.10</td>
<td>1</td>
</tr>
<tr>
<td>$0.90</td>
<td>1</td>
<td>$0.20</td>
<td>2</td>
</tr>
<tr>
<td>$0.80</td>
<td>2</td>
<td>$0.30</td>
<td>3</td>
</tr>
<tr>
<td>$0.70</td>
<td>3</td>
<td>$0.40</td>
<td>4</td>
</tr>
<tr>
<td>$0.60</td>
<td>4</td>
<td>$0.50</td>
<td>5</td>
</tr>
<tr>
<td>$0.50</td>
<td>5</td>
<td>$0.60</td>
<td>6</td>
</tr>
<tr>
<td>$0.40</td>
<td>6</td>
<td>$0.70</td>
<td>7</td>
</tr>
<tr>
<td>$0.30</td>
<td>7</td>
<td>$0.80</td>
<td>8</td>
</tr>
<tr>
<td>$0.20</td>
<td>8</td>
<td>$0.90</td>
<td>9</td>
</tr>
<tr>
<td>$0.10</td>
<td>9</td>
<td>$1.00</td>
<td>10</td>
</tr>
</tbody>
</table>

You can see, as the price of apples goes down, George is willing to buy more.

A list of how much of a product producers are willing to supply at different prices is called a “supply schedule.” Here is also a supply schedule for the grocer.
The Market Clearing Price

The point at which the supply and demand lines cross is the market clearing price. This is the price at which the number of apples George is willing to buy and the grocer is willing to supply are the same. The trade will take place at this point.

According to the graph, the market clearing price is fifty cents. At this price George will buy five apples and the grocer will sell (supply) five. How many apples is the grocer willing to sell at $0.20? How many apples is George willing to buy at $0.20?

Together, demand and supply determine how much will be bought and sold and what the price will be in any given market. Remember, a market is a group of people buying and selling a product or service. Businesses would like to charge high prices for their products and services. Consumers seek low prices. The market clearing price occurs when what the buyer wants to pay is the same as what the entrepreneur wants to charge.

Supply, demand, and price information are communicated quickly and clearly between consumers and entrepreneurs in a free market system. Learning to forecast supply and demand in your market will be a key to your success.

Use Supply and Demand as Guides

It may seem, when you start a business, that you will never know what prices to charge or how much product to supply. Each time you make a choice regarding your business, however, the laws of supply and demand will provide you with valuable feedback from your market.

• If the demand falls, the market may be telling you to change your product or service, or lower your price.
• If the supply of your product or service rises, due to other entrepreneurs entering the market, the price may start to fall. You might find that you can’t sell enough to make a profit.
• If the demand rises or the supply falls, you may be able to raise your price.

Sometimes it may seem that you’ve tried everything and paid close attention to the market, but you still can’t make a profit. Listen to that signal, too. Perhaps it’s the market pushing you to a new and different business!

Practical Daydreaming ... about Inventions!

Everyone daydreams, but entrepreneurs daydream with practical ends in mind. Some entrepreneurial daydreams have become inventions that have changed the world.

An invention is a new creation that can be used for some practical purpose. If you invent something, you can apply for a patent from the U.S. government.

A patent will give you the exclusive right to produce, use, and sell an invention. The invention becomes your “intellectual property.” You own it. No one else can legally use it for commercial purposes. Other “intellectual property” rights are: copyrights, trademarks, and trade secrets.

INVENTIONS AND PRODUCT DEVELOPMENT

Do You Use Your Creativity?

Creativity is the ability to invent or make something using your imagination. Everybody has this potential. Children are naturally creative, but as we get older many of us stop using our creativity.

The secret of being creative is the willingness to explore new ideas and change or discard old ones. This is called being “open-minded.”

Creative people are not afraid to make mistakes or to be different. Henry Ford worked on a “horseless carriage” in his backyard during the 1890s, even though neighbors made fun of him. Most people believed that, anyway, only the rich would be able to own such machines. Ford’s neighbors considered him a daydreaming mechanic.

By the time Ford was 50, however, he was rich and famous. He had created Ford Motor Company, which had become one of the largest automakers in the world.

The Entrepreneur Is a Market-Minded Artist

The difference between an artist and an entrepreneur is not creativity — both are creative. The difference lies in how that creativity is used:

• Artists create in response to an inner need to express themselves.
• The entrepreneur, in contrast, tries to create something consumers will want to buy at a price that creates a profit. Ford was determined to make a car that the average person could afford because he believed millions of people would want to buy one. Apple co-founder Stephen Wozniak believed millions of people would want to have computers in their homes. Entrepreneurs can be thought of as the “artists” of the economy. They create businesses from ideas, visions, or dreams - but always with a market in mind.

You can always improve your intelligence and use your creativity, so you should never feel that you are not creative or smart enough to succeed. There are many types of intelligence that are not measured well by standardized tests or school grades. In fact, some of the greatest entrepreneurs did poorly in school:

• Richard Branson, founder of Virgin Atlantic Airways (and Virgin Records, Virgin Mobile, and Virgin Radio), has a learning disorder called dyslexia. He found it so hard to keep up with his studies that he dropped out of high school.
• Fred Smith got a “gentleman’s C” for his business plan from his professor at Yale. The business, which he started anyway, was Federal Express, one of the most successful companies in the world.
Product Development
You can use your creativity and the unique knowledge of your market to develop new products (or improve existing ones). Just follow these steps:

Step 1: Play with possibilities.
- Ideas don’t cost anything. Just write them down.
- To jump-start your imagination, complete this sentence on a separate sheet of paper: “I wish someone would make a ______ that ______.”

Step 2: Think of possible solutions to problems in your neighborhood, community, or even the world!
- Pretend anything is possible.
- Write down and/or make sketches of your solutions.

Step 3: Make a model of the product.
- This model can be rough. Use inexpensive materials such as paper, wood, paint, cloth, or plaster of Paris - as you may go through many models.
- Does it work? How could it work better?
- Show the model to your parents, or friends you could trust not to steal your idea. Ask them how you could improve it.
- Revise your design. Don’t be afraid to experiment.

Step 4: Find out who might manufacture your product; have a prototype made.
- A prototype is an exact model of the product made by the manufacturing process that would be used in actual production.
- This can be expensive; prototypes cost many times the final production cost per item.
- Check the Thomas Register, which lists all U.S. manufacturers, to find one you might contact about your invention - www.thomasregister.com. You can usually find the Thomas Register at your local library, in the business reference section.

SELECTING YOUR BUSINESS:
What’s Your Competitive Advantage?

Listen to Your Market
The successful entrepreneur listens to what people in the community are saying. What do the people you know like? What do they need? Could you fill one of their needs? Remember, you have unique knowledge of your market. Use it to come up with a great business idea that will also serve your community.

Product or Service?
- A product is something that exists in nature or is made by human beings. It is tangible, meaning that it can be touched.
- A service is work that provides time, skills, or expertise in exchange for money. It is intangible. You can’t actually touch it.

Your business could sell a product or a service - or both. Are there any products you could make yourself? Are there any products you know that you could buy for less money than you could sell them for to your market?
Is there a service you could perform for your market? Do you have any special skills to offer?

Four Basic Business Types
1. MANUFACTURING - makes a tangible product.
2. WHOLESALE - buys in quantity from the manufacturer and sells to the retailer.
3. RETAIL - sells to the consumer.
4. SERVICE - sells an intangible product to the consumer.

Your Strategy for Beating the Competition
For your business to be successful, you will need a competitive advantage. Your competitive advantage is your strategy for beating the competition. It’s whatever you can do better than the competition that will attract customers to your business.

Competitive advantage comes from one (or a combination) of six factors:
1. Quality - Can you provide higher quality than competing businesses?
2. Price - Can you offer a lower price than your competition?
3. Location - Can you find a more convenient location for customers?
4. Selection - Can you provide a wider range of choices than your competitors?
5. Service - Can you provide better, more personalized customer service?
6. Speed/Turnaround - Can you deliver your product or service more quickly than the competition?

If you are running a video game rental business, perhaps you could deliver the games, so the customers wouldn’t have to come to the store. That would be a competitive advantage on service.

To learn which competitive advantages are working in your market, ask your customers (or people you hope to attract as customers) where they shop, and why.

By now you might have several business ideas and can’t decide on which. Try writing down some possibilities, and then eliminate them one by one until you end up with the business you like best.

The Ethics of Choosing a Business
An ethic is a rule for choosing right from wrong. “Do not steal” is an example of an ethic. The Golden Rule - treat other people as you would like to be treated - is a famous ethic.

You’ve probably seen businesses in action that are not ethical. A business that sells cheap knock-offs of designer goods, for example, is not only unethical but also illegal. You may feel that certain businesses are legal but still unethical. If you think cigarettes are harmful, you might feel it would be unethical to make or sell them.

Only you can decide which ethics will guide your personal life and your business. We do, however, recommend the following three basic ethics:
1. My business is not illegal (against the law).
2. My business will not hurt others.
3. My business will not spread negative messages or ideas in the marketplace.

Responsible and Ethical Behavior
According to the Small Business Administration (http://www.sba.gov), a business ethics policy should look at the big picture. It should consider the business’s responsibility to society as a whole. Think of a business that you would like to start and write a code of ethics for it. To get started, write answers to the following:
- What is the primary purpose of your business?
- What is most important to you and to the success of the business?
- What results would make you proud to be the owner of that business?
- What kind of atmosphere and “culture” do you want the business to have?
- What type of behavior and standards will you demand of yourself and of your employees (honesty, loyalty, courtesy, respect, fairness, accountability, dependability)? Give examples.
- What will you do to maintain those standards of behavior?
- How do you want your community to view your business?
- What positive effects will your business have on the community?
- How will you handle ethical and legal dilemmas that may arise?
Naming Your Business

What are you going to name your business? This is a very important decision. The name of your business will be the first impression you make on potential customers.

Using your first name to identify your venture - showing the pride you take in it - can be a good idea (Joe's Pizza). Using your last (family) name may not be, as there are risks:

- If the business fails, your name will be associated with the failure. This can hurt you if you decide to start a new business. Potential customers and investors may associate you with the old one.
- If the business succeeds, you might decide to sell it for a profit. But what if you hate what the new owner does with it? What if he or she engages in dishonest business practices? Your actual name is still on the door.

Keep it simple: The best name is one that tells customers what the company does, sells, or makes. Here are some examples you probably recognize: Federal Express, America Online, Burger King, & Microsoft.

Basic Business Legal Structures

- Sole Proprietorship — Owned by one person, who may also be the only employee.
- Partnership — ownership is shared by two or more people. Example; two friends who start a house-cleaning business together might choose partnership structure:
- Corporation — an entity (legal "person") composed of stockholders, who own pieces of the company.
- Nonprofit corporation — also called a 501(c)(3); a corporation whose mission is to improve society in some way.
- Cooperative — a "co-op" is business owned and controlled by the customers/members who use its service.

The Marketing Vision Drives Business Decisions

To market a product or service successfully, ask yourself: Who are my customers? What do they need? What is your product or service doing to meet their needs? What do they like about your product or service? The answer to those questions will help you form your marketing vision. The marketing vision is the benefit you want to show customers that your product or service provides.

Nike's customers want sneakers partly because they know they should exercise. The customers seek out Nike because they have been convinced by Nike's marketing that the sneakers will inspire them to get up early in the morning and go for a run. Every business move Nike makes is designed to reinforce its Just Do It marketing vision. Nike uses celebrity athletes in its marketing to further reinforce this concept.

Most experts agree that you should develop your marketing vision first; then use it to drive all your business decisions.

Marketing Establishes Your Brand

All cars do the same job - they get you from Point A to Point B. Why would you buy a particular car? Because its marketing has made you believe that only that car will meet your needs. If safety is your biggest priority, you might buy a Volvo, because its marketing emphasizes that it's the safest car on the road. If you want luxury, you might prefer a Lexus. If you need a car that gets great gas mileage, you might get a Toyota or Honda.

Marketing establishes the brand in the customer's mind. A brand is the name that distinguishes a product from its competition. The brand instantly communicates the business's competitive advantage to the consumer. Each brand and its competitive advantage has been established in your mind by television commercials, print ads, and other marketing efforts.

Focus Your Brand

The key to building a successful brand is to focus tightly on the one benefit you want to make sure customers associate with your business. In Focus: The Future of Your Company Depends on It, Al Ries explains that the most successful businesses focus their marketing so that they come to own a category in the customer's mind. You want to own a benefit the way Volvo owns "safety" or Federal Express owns "guaranteed overnight delivery."

What is Marketing?

Identifying and Responding to Customer Needs

Marketing is satisfying the customer at a profit. Nike sells sneakers. It puts sneakers in stores where customers can buy them. But Nike also markets sneakers. Nike creates advertisements and promotions designed to convince customers that Nike sneakers will inspire them to Just Do It. You can choose sneakers from many companies, but Nike hopes you will feel inspired by its marketing to seek out and buy its sneakers.

Marketing is the business function that identifies customer needs and responds to them. It is often described as "the art of getting the customer to come to the product." Through marketing, the name of your business should come to mean something solid and concrete in the consumer's mind.

Meet Your Customers' Needs to Gain Their Loyalty

As an entrepreneur, you should make your current and future customers your top priority. Together, this group of people is your market. Marketing is how you will communicate to your customers that you are deeply committed to meeting their needs. By making sure that your product or service meets your customers' needs, you will attract new customers and building a loyal customer base. The more loyal your customers are to your product, the harder it will be competitors to take them from you. Customer service is a very important part of marketing. If you need to raise your prices, loyal customers will be more likely to stay with you. Finally loyal customers talk up your business to their friends – who may become new customers!

Marketing Explains the Benefits of a Product

A customer who goes to a hardware store to buy a drill does not need a drill - he needs a hole. If he could go to the hardware store and buy the hole, he wouldn't bother to buy the drill. So, if you are marketing drills, you should emphasize what good holes your drills make!

To "think marketing," figure out what benefit the customers in your market will need to get from your product or service. What are you really selling? Charles Revson, the founder of Revlon cosmetics, famously said, "In the factory we make cosmetics; in the drugstore we sell hope."

You can build your own brand with these steps:

1. Choose a business name that is easy to remember, describes your business, and establishes "mind share." Mind share is the degree to which your business comes to mind when a consumer needs something.

2. Create a logo that symbolizes your business to the customer. Logo is short for "logotype." A logo is a distinctive company trademark, or sign. The Nike "swoosh" is an example of a logo. So are McDonald's "Golden Arches."

3. Develop a good reputation. Make sure your product or service is of the highest quality you can afford to offer. Always treat your customers like gold. You want people to feel good when they think of your brand or hear it mentioned.

4. Create a brand personality. Is your brand's "personality" youthful and casual, like the Gap's? Safe and serious, like Volvo's? Customers will respond to brand personality and develop a relationship with it. Personality will reinforce your name and logo.

5. Communicate your brand personality to your target market. What type of advertising will best reach your target market? Where should you put flyers? What newspapers or magazines does your target market read?
**Market Research**

**Listen to the Consumer**

Your market consists of the potential customers for your product or service. Market research is how you find out who these customers are and what they need.

Through market research, business owners ask consumers questions and listen carefully to their answers. Market research helps entrepreneurs figure out how to market their products and services.

You want to get into your customers' heads and find out what they really think about:

- your product or service
- your logo
- the name of your business
- your promotional efforts

**Target Market Demographics**

Find out everything you can about your target market. What do those people eat, drink, listen to, watch on TV? How much do they sleep? Where do they shop? What movies do they like? How much do they earn? How much do they spend?

**Research Your Market Before You Open Your Business**

Large corporations spend a great deal of money on market research before they introduce a product or service. Chrysler spent millions before producing the minivan. It was worth it, because it was going to cost tens of millions to produce.

**Who Is in Your Market Segment? How to Research It.**

Chances are, your product will not be needed by every single consumer in the marketplace. You will need to figure out which segments to target before you conduct your market research.

A market segment is composed of consumers who have a similar response to a certain type of marketing. In the cosmetics industry, for instance, one segment responds positively to luxuriously packaged, expensive products. Another segment is most responsive to products that claim to make customers look younger. Another wants low prices.

A company that recognizes these segments and chooses one or two to market to will be more successful than one that tries to sell cosmetics to every single woman in the country.

**Step One:** What is your market? Is it everyone in your school? Your friends? Family members? Neighbors? People online?

**Step Two:** Which segment of your market should you target? To figure this out, go back to your overall marketing vision. What is the chief benefit you want to show your customers? Which customers in your market would be most interested in this benefit? These are the customers in your market segment.

Once you have chosen your market segment, you can design a survey and begin market research. Collecting data from the people in your market segment can be fun, as well as financially rewarding. Here are a few questions you can adapt to your own product or service:

1. Would you buy this product/service?
2. How much would you be willing to pay for it?
3. Where would you buy it?
4. How would you improve it?
5. Who are my closest competitors?
6. Is my product/service worse or better than those of my competitors?

**Market Research Avoids Costly Mistakes**

You can avoid costly mistakes by simply asking your customers what they want. Say you created a design and silk-screened it on five-dozen white T-shirts. After six weeks, you have only sold six. People tell you they would have bought shirts if:

- They came in red or blue.
- You had them in different sizes.
- You had them in different styles.
- The shirts had different designs.
- The price was lower.
- You had sold them at school during lunchtime.
NO ONE MAKES A MORE POSITIVE IMPRESSION THAN A TEACHER.

Celebrating teachers and education WITH WACHOVIA

If you think about the people who have made a positive impression on you, a teacher is bound to be on the list – if not at the very top. Please join with Wachovia in honoring the teachers who touch so many lives. Wachovia recognizes all teachers for the difference they make through their dedication to education.