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PAPER :

SUBJECT : Entriprenuership

DEPARTMENT : BE(E)

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SUBMITTED TO

Engr.Shahid Latif

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Course Details

Course Title: Entrepreneurship **Module:** ____________
Instructor: Dr. Shahid Latif **Total Marks:** 50

Student Details

Name: ____________________ **Student ID:** ____________

Note: Attempt all of the following questions.

Q1.		Business Plan is heart of any new project and without a detailed plan, no business can be successful. Describe in detail how Business Plan is written, highlighting contents of its different components with giving example for each section?	Marks 10 CLO 2
Q2.	(a)	Consider yourself an "Entrepreneurship" and you want to start a new business. Prepare a "Business Plan" for your new venture detailing and describing all the steps required to start this business. (Business Plan for any Product or Service).	Marks 10 CLO 2
Q3.	(a)	What are the three main forms of business organization, and what factors should a company's owners consider when selecting a business form?	Marks 5 CLO 2
	(b)	What are advantages and disadvantages of a business venture when operated as a partnership?	Marks 5 CLO 2
Q4.	(a)	Growth Strategies are based upon Knowledge of Product or Market, discuss in your words? Describe four growth strategies with giving example of each strategy.	Marks 10 CLO 2
Q5.	(a)	Draw a block diagram showing the Marketing System for a new business by highlighting external and internal environmental factors.	Marks 10 CLO 2

Q2/ANSWER/

Executive Summery:

Coffee bar is determined to become a daily necessity for local coffee addicts, a place to dream of as you try to escape the daily stresses of life & just a comfortable place to meet your friends or to read a book, all in one. With the growing demand for high-quality gourmet coffee and great service, Coffee bar will capitalize on its proximity to the University of Campus to build a core group of repeat customers. Coffee bar will offer its customers the best prepare coffee in the area that will be complimented with pastries as well as free books that its patrons can read to enjoy their visit.

The company will operate a 2,300 square foot coff bar within a walking distance from the University of Sarhad Campus. The owners have secured this location through a 3-year Lease with an option for extanding. They have also provided PKR 140,000/- of the required PKR 170,000/- start-up funds. The remaining capital will be obtained through Bank of Pakistan (UBL commercial loans.

The company is expected to grow sales revenue from PKR 584,000/- in 2001 to PKR 706,000/- in year Three. As Coffee bar will strive to maintain a 65% gross profit margin & reasonable operating expenses, it will see net profits grow from PKR 100,000 to PKR 125,000 during the same period.

Company Summary:

Coffee bar, sarhad limited liability company, sells coffee, other beverages & snacks in its 2,300 square feet premium coffee bar located near the university of sarhad campus. Coffee bar's major investors are Arthur Garfield & James polk who cumulatively own over 70% of the company. The start-up loss of the company is assumed in the amount of PKR 27,680.

PKR (27,680)

START-UP REQUIRENENT

Start-Up Expenses	
Legal	PKR 1,300
Stationey etc.	PKR 500
Brochures	PKR 3,580
Consultants	PKR 3,000
Insurance	PKR 2,400
Rent	PKR 4,400
Remodeling	PKR 10,000
other	PKR 2,500

TOTAL START-UP EXPENSES (PKR 27,620)

Start-Up Assets	
Cash Required	PKR 67123
Startup Inventory	PKR 16,027
other Current Assets	PKR 0
Long-term Assets	PKR 59,170

TOTAL ASSETS PKR 142,320

Total Requirements	PKR 170,000

START-UP FUNDING

Startup Expenses to Fund	PKR 27,680
Start up Assets to Fund	PKR 142 320

TOTAL FUNDING REQUIRED PKR 170,000

Assets	
Non-Cash Assets from Start-Up	PKR 75,197
Cash Requirements from Start-Up	PKR 67,123
Additional Cash Raised	PKR 0
Cash Balance on starting Date	PKR 67,123

TOTAL ASSETS PKR 142320

TOTAL LIABILITIES PKR 30,000

Liabilities and Capital	
Liabilities	
Current Borrowing	PKR 10,000
Long-term Liabilities	PKR 20,000
Account payable (outstanding Bills)	PKR 0
Other Current Liabilities (interest-free)	PKR 0

Capital	
Planned investment	
Arthur Garfield	PKR 70,000
James polk	PKR 30,000
All other Investors	PKR 40,000
Additional Investment Requirement	PKR 0

TOTAL PLANNED INVESTMENT PKR 140,000

Loss at start-Up (start-Up Expenses)	PKR 27,680

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TOTAL CAPITAL PKR 112,320
TOTAL CAPITAL LIABILITIES PKR 142,320

COMANY LOCATION AND FACILITIES :

Coffee bar will be located on the ground floor of the commercial building at the Ring Road Peshawar KPK near Sarhad University. The company has secured a one-year lease of the vacant 2,500 square feet premises previously occupied by a hair salon. The lease contract has an option of renewal for three years at a fixed rate that coffee bar will execute depending on the financial strength of its business.

The floor plan will include a 200 square feet back office & a 2,300 square feet coffee bar, which will include a seating area with 15 tables, a kitchen, storage area & two bathrooms. The space in the coffee bar will be approximately distributed the following way → 1,260 square feet for the seating area, 600 square feet for the production area, & the remaining 440 square feet for the customer services area.

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Products Description:

The menu of the Coffee bar will be built around espresso-based coffee drinks such as lattes, mochas, cappuccinos, etc. Each of the espresso-based drinks will be offered with whole, skimmed, or soy milk. Each of these coffee beverages is based on a 'shot' of espresso, which is prepared in the espresso machine by forcing heated water through ground coffee at high pressure. Such espresso shots are combined with steamed milk & or other additives like cocoa, caramel, etc., to prepare the espresso-based beverages. Proper preparation techniques are of paramount important for such drinks, A minor deviation from the amount of coffee in the shot, the size of the coffee particles, the temperature of milk, etc., can negatively affect the quality of the prepared drink.

NEXT

Market Analysis Summary:

Coffee consumption has shown steady growth, with gourmet coffee having the strongest growth, Coffee drinkers in the KPK peshawar are among the most demanding ones. They favor well-brewed gourmet coffee drinks & demand great service. Coffee bar will strive to build to loyal customer base by offering a great tasting coffee in a relaxing enviroment of its coffee bar located close to the Sarhad University campus peshawar KPK.

MARKET ANALYSIS

		Year1	Year2	Year3	Year4	Year5	
Potential Customer	Growth						CAGR
Student & Faculty	2%	18,000	18360	18727	19102	19484	2.00%
Teenagers	1%	3,000	3,030	3060	3091	3122	1.00%
office workers	2%	8,000	8,160	8323	8489	8659	2.00%
Other	0%	5000	5000	5000	5000	5000	0.00%
Total	1.63%	34000	34550	35110	35682	36265	1.63%

Strategy & Implementation Summery:

Coffee bar marketing strategy will be focused at getting new customers, retaining the existing customers, getting customers to spend more & come back more often. Establishing a loyal customer base is of a paramount importance since such customer core will not only generate most of the sales but also will provides favorable referrals.

Management Summery:

Coffee bar is majority-owned by Ahmad, Javid & Sher. Mr. Sher holds a Bachelor's Degree in BE(E) from Iqra University. He's worked for several years as an independent business consultant. Previously, he owned the International Travel Agency, which he profitably sold four years ago. Mr. Ahmad has a Bachellor's Degree in Business Administration from Peshawar University. For last five years he has worked as a manager of PC Hotel. Under Mr. Ahmad management, the restaurant has consistantly increased sales while maintaining a lower than average level of operating expenses

NEXT

However because of the investors other commitments they will not be involved into the daily management decision at coffee bar. A professional manager (PKR 35000/yr) will be hired who will oversee all the coffee bar operation. Two full-Time baristas (PKR 25000/yr each) will be in charge of coffee preparation. Four more part-time employees will be hired to fulfil the staffing needs. In the second & third year of operation one more part-time employee will be hired to handle the increased sales volume.

PERSONNEL PLAN

	Year 1	Year 2	Year 3
Manager	PKR 35,000	PKR 37,800	PKR 40,824
Baristas	PKR 50,000	PKR 54,000	PKR 58,320
Employees	PKR 39,600	PKR 52,000	PKR 56,000

TOTAL PEOPLE	7	8	8
Total Payroll	PKR 124,600	PKR 143,800	PKR 155,144

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Financial Plan :

Coffee bar will capitalize on the strong demand for high-quality gourmet coffee. The owners have provided the company with sufficient start-up capital. With successful mangement aimed at establishing & growing a loyal customer base, the company will see its net worth doubling in two years. Coffee bar will maintain a healthy 65% gross margin, which combined expenses, will provide enough cash to finance further growth.

Important Assumptions:

General Assumptions

	Year 1	Year 2	Year 3
Plan Month	1	2	3
Current interest Rate	10.00%	10.00%	10.00%
long term Interest Rate	10.00%	10.00%	10.00%
Tax Rate	25.42%	25.00%	25.42%
Other	0	0	0

Next

Projected Cash Flow:

As the table below present, the company will maintain a healthy cash flow position, which will allow for timely debt servicing & funds available for future developement.

PRO FORMA CASH FLOW:

	Year 1	Year 2	Year 3
Cash from Operations			
Cash Received			
Cash Sales	PKR 584,000	PKR 642,400	PKR 706,640
SUBTOTAL CASH FROM OPERATIONS	PKR 584,000	PKR 642,400	PKR 706,640
Additional Cash Received			
Sales Tax, VAT, HST/GST Received	PKR 0	PKR 0	PKR 0
New Current Borrowing	PKR 0	PKR 0	PKR 0
New Other Liabilities (interest-free)	PKR 0	PKR 0	PKR 0
New Long-term Liabilities	PKR 0	PKR 0	PKR 0
Sales of other Current Assets	PKR 0	PKR 0	PKR 0
Sales of Long term Assts	PKR 0	PKR 0	PKR 0
New Investment Received	PKR 0	PKR 0	PKR 0

SUBTOTAL CASH Received	**PKR584000**	**PKR642400**	**PKR706640**
	Year 1	Year 2	Year 3
Expenditures			
Expenditures from Operation			
Cash Spending	PKR124600	PKR143800	PKR155144
Bill payments	PKR327865	PKR388715	PKR420945
SUBTOTAL SPENT ON OPERATION	**PKR452465**	**PKR532515**	**PKR576,089**
Additional Cash Spent			
Sales Tax, VAT, HST/GST Paid out	PKR 0	PKR0	PKR 0
Principle Repayment of Current Borrowing	PKR3,300	PKR 3300	PKR 3300
Other Liability Principle Repayment	PKR 0	PKR 0	PKR 0
long term liability " "	PKR 0	PKR35585	PKR 3961
Purchase Other Current Assets	PKR 0	PKR0	PKR0
Purchase long term Assets	PKR 0	PKR2,000	PKR 2,000
Dividends	PKR0	PKR0	PKR 0
SUBTOTAL CASH SPENT	**PKR455765**	**PKR541400**	**PKR585350**
Net Cash Flow	PKR128,235	PKR101,000	PKR121290
Cash Balance	PKR195,358	PKR296358	PKR417648

⇒ Prodected PROfit & Loss:

RRO FORMA PROFIT AND Loss			
	Year 1	Year 2	Year 3
Sales	PKR584000	PKR642400	PKR706640
Direct Cost of Sales	PKR204400	PKR224840	PKR247324
Other	PKR 0	PKR0	PKR0

Next

TOTAL Cost OF SALES	PKR204400	PKR224840	PKR247324
	Year 1	Year 2	Year 3
Gross Margin	379600	417560	459316
Gross Margin %	65 %	65%	65%
Expenses			
Payroll	124600	143 800	155144
Sales & Marketing & other Expenses	25800	27,600	31,000
Depreciation	5,400	5,500	5,500
Rent	48,400	52,800	52,800
Rent	6,000	6,000	6,000
Maintenance	5,840	6,424	70,66
Utilities/Phone	9000	9500	10,000
Payroll Taxes	18690	21570	23 272
other	0	0	0
Total Operating Expenses	243730	273194	290782
Profit Before Interest & Taxes	135870	144366	168,534
EBITDA	141270	149866	174034
Interest Expense	2821	2326	1,618
Taxes Incurred	33740	35510	42424
Net Profit	99,308	106530	124491
Net Profit/Sales	17.00%	16.58%	17.62%

⇒ Projected Balance Sheet

PRO FORMA BALANCE Sheet	Year1	Year2	Year3.
Assets			
Current Assets			
Cash	195,358	286,358	417,648
Inventory	21,175	23,293	25,622
other current Assets	0	0	0

TOTAL Current Assets	**PKR216533**	**PKR319651**	**PKR443270**
Long term Assets			
Long term Assets	59170	61170	63170
Accumulated Depreciation	5400	10900	16400
TOTAL Long Term Assets	**PKR53770**	**PKR50270**	**PKR46,770**
TOTAL ASSETS	**PKR270303**	**PKR369921**	**PKR490,040**
	Year 1	Year 2	Year 3
Liability & capital			
Current Liabilities			
Accounts Payable	31974	31947	34836
Current Borrowing	6700	3400	100
Other Current Liabilities	0	0	0
TOTAL Current Liabilities	**PKR38674**	**PKR35,347**	**PKR34,936**
Long term Liabilities	20,000	16415	12454
TOTAL LIABILITIES	**PKR58674**	**PKR51762**	**PKR47390**
Paid-in Capital	140000	140000	140000
Retained Earnings	27680	71628	178159
Earnings	99308	108530	124491
TOTAL CAPITAL	**PKR211628**	**PKR318159**	**PKR442650**
TOTAL LIABILITIES And Capital	**PKR270303**	**PKR369921**	**PKR490040**
Net worth	211,628	318.159	442650

Next

=) Business Ratio's :

RATIO ANALYSIS

	Year1	Year2	Year3	INDUSTRY PROFILE
Sales Growth	0 %	10%	10%	7.6 %
Percent of total Assets				
Inventory	7.83%	6.3%	5.23%	3.6%
Other Current Assets	0%	0%	0%	35.6%
Total current "	80.11%	86.41%	90.46%	43.70%
Long term "	19.89%	13.59%	9.54%	56.30%
TOTAL ASSETS	100%	100%	100%	100%
Current Liabilities	14.31%	9.56%	7.13%	32.7%
Long term Liabilities	7.4%	4.44%	2.54%	28.5%
Total Liabilities	21.71%	13.99%	9.67%	61.20%
NET WORTH	78.29%	86.01%	90.33%	38.80%
Percent of sales				
Sales	100%	100%	100%	100%
Gross Margin	65%	65%	65%	60.50%
Advertising Expenses	2.26%	2.18%	2.26%	3.20%
Profit Before Interest & Taxes	23.27%	22.47%	23.85%	0.70%
Main Ratio				
Current	8.60	9.04	12.69	0.98
Quick	5.05	8.38	11.95	0.65
Total Debt to Total Assets	21.71%	13.99%	9.67%	61.20%

Next

Appendix

Sales Forecast	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	
Sales													
Coffee beverages	0% 24000	27000	28800	28500	28800	28800	28800	28800	29400	31200	33000	33000	RKR
Coffee beans	0% 6000	6750	7200	7200	7200	7200	7200	7200 720	7350	7800	8250	8250	RKR
Pastries, etc	0% 10,000	11,250	12250	12000	12000	12000	12000	12000	12250	13000	13750	13750	RKR
TOTAL Sales	40,000	45,000	48,000	48,000	48,000	48,000	48,000	48,000	49,000	52,000	55,000	55,000	RKR

Direct Cost of Sales	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	
Coffee beverages	6,000	6,750	7200	7200	7200	7200	7200	7200	7350	7800	8250	8250	PKR
Coffee beans	3000	3375	3000	3000	3000	3000	3000	3000	3075	3900	4,125	4,125	RKR
Pastries etc	5000	5,023	5,000	6,000	6000	6000	6,000	6,000	6,125	6,500	6,875	6,875	PKR
Subtotal Direct Cost of sales	14000	15750	10800	10800	10800	10800	10800	10800	17150	18200	19250	19250	PKR

Q2 Ans END

Ans

Q1/ANSWER/

Business Plan:

→ **Introductory:**

→ Name & address of the company.

→ Name of the entrepreneur, telephone number, fax number, e-mail address & web site address.

→ Description of the company & nature of the business.

→ Statement of financing needed.

→ Statement of confidentiality of report.

→ **Executive Summery:**

→ About two to three pages in length summarizing the complete business plan.

→ **Environmental & Industry Analysis:**

→ The environmental analysis assesses external uncontrollable variables that may impact the business plan.

→ Example: Economy, culture, technology, legal concerns, etc.

→ The industry analysis involves reviewing industry trends & competitive strategies.

Examples: Industry demand, competition, etc.

→ **Operation Plan** :

→ All business (manufacturing or non-manufacturing) should include an operations plan as part of the business plan.

→ It goes beyond the manufacturing process.

→ Describes the flow of goods & services from production to the customer

→ The major distinction b/w services & manufactured goods is services involve intangible performances.

→ **Marketing Plan** :

→ It describes market conditions & strategy related to how the product/services will be distributed, priced & promoted.

→ Marketing research evidence to support any of the marketing decision strategies as well as for forecasting sales should be described in this section.

→ Potential investors regard the marketing plan as critical to the success of the new venture.

Q1/ANSWERS/CONTINUES/

→ **Organization Plan:**

→ It describes the form of ownership & lines of authority & responsibility of members of new venture.

→ In case of a partnership, the terms of the partnership should be included.

→ In case of a corporation, the following should be included:

→ Shares of stock authorized & share options.

→ Name, addresses, & resumes of directors & officers.

→ Organization Chart

→ **ASSESSMENT of Risk:**

→ Identifies potential hazards & alternative strategies to meet goals & objectives.

→ The entrepreneur should indicate:

→ Potential risks to the new venture.

→ Impact of the risk

→ Strategy to prevent, minimize or respond to the risk.

→ Major risk could result form:

→ Competitor's reaction

Q1/ANSWER/CONTINUES/

→ Competitor's reaction.
→ Weaknesses in marketing/production/management team.
→ New advances in technology.

→ **Financial Plan:**

→ It contains projections of key financial data that determine economic feasibility & necessary financial investment commitment.

→ It should contain:
→ Summarized forecasted sales & appropriate expenses for at least the first three year.
→ Cash flow figure for three year.
→ Projected balance sheet.

→ **Appendix:**

→ It contains any backup material that is not necessary in the text of the document.

→ It may include:
→ Letters from customers, distributors or subcontractors.
→ Secondary data or primary research data used to support plan decisions.
→ Leases, contract or other agreements.

Q3/ANSWER/

Part (b)

Partnerships

Advantages	Dis Advantages
1) easy & inexpensive to form.	1) Potential conflicts b/w partners
2) Diverse skills & expertise	2) Unlimited liability & potential loss
3) Flexibility	3) Sharing profit
4) Relative freedom from & government regulation	4) hard to leave or end partner ship
5) no special taxation	

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Q 3 / ANSWER /

Part (a)

→ Sole proprietor ⇒ partnerShip → Corporation

⇒ Choose a form of Organization by evaluating:

1) Owner's liability for firm's debts
2) The ease & cost of forming the business
3) The ability to raise funds
4) The taxes
5) The degree of operating controll the operator can retain.
6) The ability to attract employees.

Q4/ANSWER/

Growth Strategy:

A growth strategy is a plan of action that allows you to achieve a higher level of market share than you currently have. Contrary to popular belief, a growth strategy is not necessarily focused on short-term earnings - growth strategies can be long-term, too. Let's keep that in mind. There are typically 4 types of strategies that roll up into a growth strategy. You might use one or all of the following:

1) Product development strategy:

Growing your market share by developing new products to serve that market. These new products should either solve for a new problem or add to the existing problem you product solves.

2) Market development Strategy:

Growing your market share by developing new segments of the market, expanding your current user's usage of your product

Next

Q4/ANSWER/CONTINUES/

3) Market Penetration Strategy:

Growing your market share by bundling products, lowering prices, & advertising - basically everythings you can do through marketing after your product is created. This strategy is often confused with market development strategy.

4) Diversification strategy:

Growing your market share by entring entirely new markets. This type of strategy can be very risky. A small company will need to plan carefully when using a diversification growth strategy.

Examples:

1 - Google:

Google is renowned for its namesake search engine, but what fueled its growth into the company now called Alphabet is its outsized revenue.

It used a product development growth Strategy:

Google started as a business-to-consumer (B2C) company offering a search engine. But it needed a source of revenue. To achieve, Adwords, targeted to businesses that had to

Q 4 / ANSWER / CONT....

But it needed a source of revenue. To achieve that revenue, it developed a new product, Ad Words, targetted to businesses that had to play to advertise.

→ **Tailor the product for the customer:**

Going from a B2C to a business-to-business (B2B) product required a new set of capabilities designed for its B2B audience.

→ **The new product should complement existing products:**

Google made sure its new AdWords product fit seamlessly into the experience of its B2C product. It had to safe guard the speed of its search engine, so it offered text ads, which loaded quickly, and looked like the other search engin result. This guarenteed the consumer experience was not degraded by advertising, ensuring that consumers would continue using the search engine.

2- Dollar Shave Club:

When Dollar Shave Club launched its razor business in 2012, Gillete had a commanding share of about 70% of the U.S. market according to entrepreneur magazine.

Next

Q4/ANSWER/CONTINUES/

It employed a market development growth Strategy:

The key to Dollar shave Clubs success is that it could offer a lower-priced alternative to the leader by selling direct to the consumer, which represented a new market for razors at the time.

→ **Identify a new market:**

Gillette sold its products to retail outlets. Dollar Shave Club used the internet to employ a direct-to-consumer model that allowed it to sell razors for as little as a dollar.

→ **Offer an improved Customer experience:**

Dollar Shave Club worked with manufacturers in Asia to produce razors, eliminating any markup from a middle man. These cost savings could be passed on to consumers who flocked to its low-cost offering.

3- face book :

Face book is ubiquitous today, but when it Launched in 2004, it was one of several social media networks.

Next

Q4/ANSWER/CONTINUE/

The company used a market penetration growth strategy:

It started by focusing on a narrow target customer base, then expanded gradually. Here's how face book did it.

: → Start small:

Face book begain in the harred dorm room of mark Zuckerberg. Consequently, the initial customer base was Harvard Stds.

→ Expand gradually

Once face book gained traction at Harvard, it gradually expanded to other colleges. This allowed the company to grow using the same success model employed at Harvard.

→ Increase growth when you're ready:

After facebook spread to colleges, it opened up to non-students. its measured expansion allowed face book to focus on adjusting the product to the needs of each new customer segment. As a result, it avoided the growth challenges that led to My Space's decline.

NEXT

Q4/ANSWER/CONTINUES/

4- Amazon :

Amazon's retail dominance began in 1995.

The answer is a diversification growth strategy:

Amazon was among the earliest online retailers, offering the ability to buy online (a new concept at the time) in a new market.

Approach Amazon took.

→ Offer an improved customer experience:

It started by providing customers a larger selection of books than was available in brick-and-mortar bookstores. Being online, Amazon did not have the limits of shelf space. Also customers could check the site & know right away if a book was in stock. This convenience allowed Amazon to success over larger brick & - mortar book sellers.

→ Rinse & repeat :

Amazon then used its proven model in books to expand into adjacent markets, such as DVD & electronics sales. It continued to grow its offerings & now it has spread into groceries & even health care.

Q 5/ Answer 1

Part (a)