



NFTE
Teaching Youth to Build Businesses

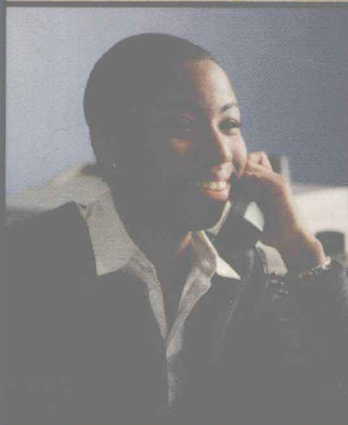
ENTREPRENEURSHIP

HOW TO

START & OPERATE A SMALL BUSINESS

BY STEVE MARIOTTI
with Tony Towle

**A GUIDE FOR
THE YOUNG ENTREPRENEUR**



MODULE 1: BASIC & INTERMEDIATE, CHAPTERS 1-28
MODULE 2: ADVANCED, CHAPTERS 29-50

THE NATIONAL FOUNDATION FOR TEACHING ENTREPRENEURSHIP

HOW TO START & OPERATE A SMALL BUSINESS

A GUIDE FOR THE YOUNG ENTREPRENEUR

Module 1: Basic and Intermediate

~~*Module 2: Advanced*~~

The National Foundation for Teaching Entrepreneurship

By Steve Mariotti with Tony Towle

Ninth Revised Edition

This module is dedicated to

Raymond Chambers, Elizabeth, Charles G. and David H. Koch,
and the Honorable John C. Whitehead

Special dedication to

Bernard A. Goldhirsh and Diana Davis Spencer

Special thanks to

Joanne Beyer of the Scaife Family Foundation

Barbara Bell Coleman of the

Newark Boys' and Girls' Clubs

Chris Podoll of the William Zimmerman Foundation

Stephanie Bell-Rose of the Goldman Sachs Foundation

The Shelby Cullom Davis Foundation

Tom Hartocollis, Jeff Raikes, and the Microsoft Corporation

Nasdaq Educational Foundation

Ronald McDonald House Children's Charities

Dr. Kathleen R. Allen, University of Southern California

and

Michael Caslin, Debra DeSalvo, Julie Silard Kantor

Leslie Pechman Koch, and Jack Mariotti

Curriculum development assistance from

Chris Meenan and Nancy Rosenbaum

Edited by

Debra DeSalvo

Design Consultation/Production by

WestGroup Communication, Inc.

Photography by

Mike Kuczera, and Krasner and Trebitz

Illustrations by

Maija Wilder

(Some illustrations were based on previous work by Jeff Faria, Meryl Hurwich,
Al Stern, and Daryl Joseph Moore.)

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ISBN 1-890859-00-1

Office of the President
The National Foundation for
Teaching Entrepreneurship, Inc. (NFTE)
120 Wall Street, 29th Floor
New York, NY 10005

Dear Student:

This course has been designed to teach you everything you will need to start and maintain your own small business. We hope that what you learn here will help you achieve financial independence and personal satisfaction. Knowing how business works will be of great value in any future employment you may have.

Learning the principles of entrepreneurship will teach you about more than just business and money, however. In this module, for example, you will learn, among other things, how to negotiate, calculate return on investment, perform cost/benefit analysis, and keep track of your income and expenses. These are all skills that apply to your personal as well as your business life. Even if you don't become a lifelong entrepreneur, learning how to start and operate a small business will give you an understanding of the business world that will make it much easier for you to get jobs and create a fulfilling career for yourself.

The characteristics of the successful entrepreneur — a positive mental attitude, the ability to recognize opportunities where others only see problems, and openness to creative solutions — are qualities worth developing. They will help you perform better in any situation life throws at you.

This is not a difficult course and I hope you will enjoy it. Just take it one chapter at a time. If you have any questions or comments, please write to me at the above address. I also hope you will visit our website for NFTE graduates, <http://alumni.nfte.com> for information on how you can compete in our national business plan contests. Good luck!

Sincerely yours,



Steve Mariotti
Founder and President, NFTE



Attention Students

NFTE wants to hear from you! Besides being the publishers of your textbook, we are a national organization that helps young people like you improve their academic performances and start their own small businesses. By completing this course, you may be eligible to become a member of the NFTE alumni network. As a NFTE alumnus, you can:

- Log on to our alumni website, where you will find information about small business financing, colleges, scholarships, internships, and much more:
<http://alumni.nfte.com>
- Participate in our summer BizCamps
- Enter national and local business plan competitions
- Join a young entrepreneurship club in your community

And the best part is that you won't have to wait until you finish the course to join. Visit our alumni website (listed above) and start enjoying the benefits right now!

You can also contact us directly:

National Alumni Services

The National Foundation for Teaching Entrepreneurship (NFTE)

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Preface

The two Modules designated 1 and 2 that comprise *How to Start and Operate a Small Business: A Guide for the Young Entrepreneur* can be used as an independent introduction to entrepreneurship and basic business principles, or may be interwoven with other curricula. The course material meets academic standards, including the U.S. Department of Labor Secretary's Commission on Achieving Necessary Skills (SCANS), the National Council for the Teaching of Mathematics (NCTM) Curriculum and Evaluation Standards, and NCSS Curriculum Standards for Social Studies.

The two Modules are meant for use in conjunction with the corresponding Workbooks, also designated 1 and 2.

Entrepreneurship draws from a number of disciplines, so that many of the topics touched on in this course — such as economics and accounting — could not be explored in depth. We hope that students will be inspired to study in greater detail subjects that we can only introduce. Our purpose here is to provide the fundamentals of starting and operating a small business venture.

Our textbooks have been designed to correlate in a general way with our online learning program, NFTE BizTech™, which can be reached at www.nfte.biztech.com/nfte/biztech.



Steve Mariotti

President & Founder

National Foundation for Teaching Entrepreneurship (NFTE)

Steve Mariotti received his undergraduate and M.B.A. degrees from the University of Michigan, Ann Arbor, and has studied at Harvard University, Stanford University, and Brooklyn College. His professional career began by serving as a Treasury Analyst for Ford Motor Company. He then founded Mason Import/Export Services in New York.

In 1982, Steve Mariotti made a significant career change and became a business teacher in the New York City public school system. It was at Jane Addams Vocational High School in the Bronx that Steve Mariotti developed the insight and inspiration to bring entrepreneurial education to youth. This led to founding the National Foundation for Teaching Entrepreneurship (NFTE) in 1987.

Since its founding, NFTE has become a major force in promoting and teaching entrepreneurial literacy and basic academic and business skills to young people both in the United States and abroad. To date, NFTE has served over 40,000 young people and trained more than 1,500 teachers and youth workers in 42 states and 14 countries.

Steve Mariotti has received many honors and awards for his work in the field of youth entrepreneurship including: Best Economics Teacher in New York State (1988); National Award for Teaching Economics, The Joint Council of Economic Education (1988); Best Teacher of the Year, National Federation of Independent Businesses (1988); Honorary Doctorate in Business and Entrepreneurship, Johnson & Wales University (1990); Entrepreneur of the Year Award, *Inc.* magazine, with Ernst & Young and Merrill Lynch (1992); The Appel Award, Price Institute for Entrepreneurial Studies (1994); and The University of Michigan Business School Entrepreneurship Award (1999).

Mr. Mariotti has co-authored sixteen books, including *How to Start and Operate a Small Business*, with Tony Towle, and *Entrepreneurs in Profile*, with Jenny Rosenbaum. A more advanced version of *How to Start and Operate a Small Business* was published by Times Books, a division of Random House, in 1996. Now in its second edition, this popular book, *A Young Entrepreneur's Guide to Starting and Running A Business*, has sold more than 75,000 copies.

Tony Towle

Tony Towle has worked for Steve Mariotti and NFTE since its inception. In addition, he has written about art and is a poet whose books include *North*, *Autobiography*, *Works On Paper*, *Some Musical Episodes* and, most recently, *A History of the Invitation (New & Selected Poems 1963–2000)*.



About NFTE

The National Foundation for Teaching Entrepreneurship, Inc. (NFTE, and pronounced “Nifty”) is a national nonprofit organization founded to introduce youth to the world of business. Through special training programs, NFTE teaches the fundamentals of entrepreneurship, focusing on how to start and maintain a small business.

NFTE believes that young people have extraordinary potential for business achievement and possess many of the qualities of the successful entrepreneur, such as a willingness to take risks, and resiliency. By making business both interesting and comprehensible, NFTE seeks to encourage youth to participate economically in their communities, as well as in society at large.

NFTE’s goal is to strengthen local communities through youth training, teacher education, curriculum research and development, as well as public education and information forums.

Acknowledgments

I would like to thank my writing partners, Tony Towle, who from NFTE's very beginning helped me organize my thoughts and experiences, and Debra DeSalvo, without whose gift for organization and rewriting, this book would never have been possible. I would also like to acknowledge the significant contribution of Pittsburgh Regional Director Chris Meenan, as well as other NFTE executives: Del Daniels, Margaret Dunn, Elsa Huaranca, Dorian Johnson, Julie Silard Kantor, Leslie Pechman Koch, Talia Nagar, Christine Poorman, Jane Walsh, Joel Warren, and particularly Nancy Rosenbaum and Leonora Snyder, who have made numerous helpful suggestions and have taught me the importance of sound process.

In addition, I would like to thank my brother, Jack, the best CPA I know, and my father, John, for financing much of NFTE's early work and for their continuing love and guidance. I'd also like to acknowledge my partner and colleague, Michael Caslin, for bringing order and discipline to our organization, and for invaluable counsel in helping me learn the finer points of vision and leadership. Mike has also made innumerable suggestions to refine our curriculum. Thanks are due, also, to Alaire Mitchell for her educational expertise; to Peter Eisen for helping me get the accounting sections "right"; and to all the other teachers, students, experts, and friends who were kind enough to review this book and help me improve it. Special thanks also go to Marvin Berk & Felicia Telsey at WestGroup Communication for their creativity and dedication.

In addition, I must express my gratitude to Jenny Rosenbaum for helping me write many of the entrepreneurial profiles included in the text (which are adapted from NFTE's *Entrepreneurs in Profile*). Thanks also, to Howard Stevenson, Jeffry Timmons, NFTE Board Member Stephen Spinelli, and William Bygrave for their academic and business expertise; my first three students — Vincent Wilkins, Josephine Reneau, and Howard Stubbs; and Lisa Hoffstein, Executive Director of the University Community Outreach Program, who gave us our first contract and has been instrumental in NFTE's development. The efforts of NFTE Board Chairman Tom Hartocollis of Microsoft, Richard Fink of Koch Industries, Michie Slaughter, Bob Rogers, and Michael Herman of the Ewing Marion Kauffman Foundation, and Mike Hennessy and John Hughes of the Coleman Foundation, have also been crucial to NFTE's development over the years.

I would also like to recognize the efforts and contributions of members of NFTE's National Board of Directors: Albert Abney, Patricia Annino, Bart Breighner, Jay Christopher, John Fullerton, Bernard Goldhirsh, Verne Harnish, Tom Hartocollis, Landon Hilliard, James Holden, Robert Hurst, Loida N. Lewis, James Lyle, Arthur Samberg, Andrew Sherman, Diana Davis Spencer, Kenneth Starr, and Peter Walker. I would also like to acknowledge the inspired guidance provided by our National Executive Committee: Howard Buffett, Lewis Eisenberg, Theodore Forstmann, Hon. Jack Kemp, Elizabeth Koch, Alan Patricof, Jeff Raikes, and Hon. John Whitehead. I also would like to express appreciation and deep gratitude to the many philanthropists who have supported our work. In addition, please see page xii for the list of NFTE's largest supporters over the years.

Finally, I want to thank my mother, Nancy, a wonderful special-education instructor who showed me that one great teacher can affect eternity; my friends and mentors, Ray Chambers and Hon. John Whitehead; Bernard Goldhirsh for twelve years of friendship and helping put entrepreneurship on the map with the founding of *Inc.* magazine; and the late Gloria Appel of the Price Institute for Entrepreneurial Studies, for funding NFTE teacher education and being a good friend.

In addition, I would like to thank Steve Alcock, Lena Bondue, Andrea Levitt Bonfils, Dawn Bowlus, Camy Calve, Shelly Chenoweth, Janet McKinstry Cort, Erik Dauwen, Clara Del Villar, Tom Flaherty, Christine Chambers Gilfillan, Andrew Hahn, Dolores Hirschmann, Kathleen Kirkwood, Cynthia Miree, David Nelson, Helene Robbins, Victor Salama, Carol Tully, Liza Vertinsky, Dilia Wood, and Elizabeth Wright, as well as Stephen Brenninkmeyer, Peter Cowie, Joseph Dominic, Paul DeF. Hicks, Jr., Ann Mahoney, David Roodberg, Phyllis Ross Schless, Remi Vermeir and Maija Wilder, who have all provided countless insights into providing entrepreneurial opportunities to young people.

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HOW TO START & OPERATE A SMALL BUSINESS

Basic: Starting Your Business ***Includes: Chapters 1-14 and the Basic Business Plan***

The Basic chapters of NFTE Module 1 will teach you what you need to know to start a simple business. Once you have completed these chapters, you will be able to prepare an income statement, understand marketing basics, perform cost/benefit analysis, and calculate return on investment. You will also learn what it means to be an entrepreneur and how you can use your unique skills and talents to start a small business venture.

After you have finished Chapter 14, you will be ready to apply what you have learned by preparing your Basic Business Plan. A complete version of the Basic Business Plan can be found in your NFTE Module 1 Workbook.

Intermediate: Running a Business Successfully ***Includes: Chapters 15-28 and the Intermediate Business Plan***

The Intermediate Chapters of NFTE Module 1 will teach you how to successfully manage and run your business. Once you have completed these chapters, you will be able to create a cash flow statement, identify your competitive advantage, and keep good records for your business.

After you have finished Chapter 28, you will be ready to apply what you have learned by preparing your Intermediate Business Plan. A complete version of the Intermediate Business Plan can be found in your NFTE Module 1 Workbook.

Advanced: What You Need to Know to Grow ***Includes: Chapters 29-50 and the Advanced Business Plan***

The Advanced Chapters of NFTE Module 2 will teach you how you can grow a small business venture you have already started. Once you have completed these chapters, you will be able to create a balance sheet, do break-even and financial ratio analysis, and select the best financing strategy for your business.

After you have finished Chapter 50, you will be ready to apply what you have learned by preparing your Advanced Business Plan. A complete version of the Advanced Business Plan can be found in your NFTE Module 2 Workbook.

Below are the respective contents for both Modules 1 and 2 and BizTech.

Module 1	BizTech Chapters
Basic: Starting Your Business	Basic Chapters
1. What Is an Entrepreneur?	1. What is Entrepreneurship?
2. Opportunity Recognition	2. Opportunity Recognition
3. Characteristics of the Successful Entrepreneur	3. The Right Stuff
4. Income Statements: The Entrepreneur's Scorecard	4. Preparing Income Statements
5. Return on Investment	5. Return on Investment
6. Inventions and Product Development	6. Business Ideas
7. Financing Strategy: Borrow or Sell?	7. Banking and Capital
	Basic BizPlan Chapters
8. Selecting Your Business	1. Your Business Ideas
9. The Power of Positive Thinking	2. Your Goals
10. The Costs of Starting and Operating a Business	3. Economics of One Unit
11. What Is Marketing?	4. Your Marketing Plan
12. Advertising and Publicity	5. Your Logo and Flyer
13. Cost/Benefit Analysis	6. Projected 1-Year Income Statement
14. Market Research	7. Field Trip: Market Research
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16. Keeping Good Records	9. Keeping Great Records
17. Negotiation	10. Marketing
18. Consumer Analysis and Developing Your Marketing Mix	11. Market Research
19. Sole Proprietorships and Partnerships	12. Legal Structure
20. The Production/Distribution Chain	13. Keys to Success
21. Technology	14. Technology Works
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22. Business Communication	8. Design Your BizCard
23. Quality	9. Estimating Start-up Costs
24. Cash Flow	10. Your Accounting and Filing System
25. From the Wholesaler's to the Trade Fair	11. Finding Wholesalers
26. Trade Fair Financials	12. I.S. Items as % of Sales
27. Principles of Successful Personal Selling	13. Practice Sales Calls
28. Protecting Your Intellectual Property	14. Business Technology
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33. Math Tips to Help You Sell and Negotiate

34. The Advanced Sales Call

35. Franchising and Licensing: Capitalizing on Your Brand

36. Contracts

37. Raising Capital: Other People's Money

38. Venture Capital

39. Taxation for the Entrepreneur

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16. Forecasting Supply and Demand

17. Breaking Even

18. The Stock Market

19. Selling is Teaching

20. Sales Call

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25. Handling Taxes

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41. Putting the Right Management Team in Place

42. Bonds and Other Debt-Based Financing Strategies

43. Insurance and Other Operating Costs

44. Manufacturing: From Idea to Product

45. Future and Present Value of Money

46. Ethical Business Behavior

47. Building Good Personal and Business Credit

48. The Balance Sheet: A Snapshot of Your Business

49. Socially Responsible Business and Philanthropy:
Giving Back to Your Community

50. Building Lifelong Financial Relationships

15. Your Legal Structure

16. Building Your Team

17. Your Financing Strategy

18. Your Operating Costs

19. Break-Even Analysis

20. Managing Your Time

21. Writing a Press Release

22. Financial Ratio Analysis

23. Your Balance Sheet

24. Your Philanthropy Plan

25. Open a Bank Account

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How to Read *The Wall Street Journal*

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the prices must also be high enough for the entrepreneur to be able to cover all the costs of running the business.

Big and Small Business*

The public often thinks of business only in terms of “big” business — companies such as Ford, General Motors, IBM, McDonald’s, and Nike. A “big” business has more than 100 employees and sells more than \$1 million worth of products or services in a year.

Most of the world’s businesses are small businesses, though. A baby-sitting service and a neighborhood restaurant are examples of small businesses. Surprisingly, the principles involved in running a large company like General Motors and a little restaurant are similar. In fact, most of the large businesses in this country started out as small, entrepreneurial **ventures**. Many of the biggest businesses in the world, like Microsoft or McDonald’s, began as an idea thought up by one or two entrepreneurs.

Profit

No matter how big or small, a business must make a **profit** to stay “in business.” A business makes a profit when the amount of money coming in from sales is greater than the amount of money required to pay the bills. Many businesses do operate “at a loss” when they are getting started because they have to spend money on setting up operations and on advertising to attract customers. But if a business continues to lose money, eventually the entrepreneur will run out of cash and be unable to pay the bills. If a business continues to lose money, the entrepreneur may have to close it.

Closing a business is nothing to be ashamed of; most successful entrepreneurs open and close more than one business during a lifetime. If your venture is not making a profit after you’ve gotten it up and running, that’s a signal that you may be in the wrong business. Closing it may be the best decision.

Entrepreneurs Create 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 scarce 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 by cars. Wood is a resource, because it can be used to make a house, or a table, or paper.

* Source of definitions: Small Business Administration.