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## ABSTRACT

This instructor guide for a unit on business plans in the PACE (Program for Acquiring Competence in Entrepreneurship) curriculum includes the full text of the student module and lesson plans, instructional suggestions, and other teacher resources. The competencies that are incorporated into this module are at Level 2 of learning--planning for a business in one's future. Included in the instructor's guide are the following: unit objectives, guidelines for using PACE, lists of teaching suggestions for each unit objective/subobjective, model assessment responses, and overview of the three levels of the PACE program. The following materials are contained in the student's guide: activities to be completed in preparation for the unit, unit objectives, student reading materials, individual and group learning activities, case study, discussion questions, assessment questions, and references. Among the topics discussed in the unit are the following: how a business plan contributes to the success of a business, questions to be answered in a business plan, components of a business plan, and importance of the presentation of a business plan. (KC)

ED 373 221

UNIT 5  
LEVEL 2

**PACE**  
THIRD EDITION

Program for Acquiring Competence in Entrepreneurship

CENTER ON EDUCATION AND TRAINING FOR EMPLOYMENT  
COLLEGE OF EDUCATION  
THE OHIO STATE UNIVERSITY

Research & Development Series No. 302.5

# INSTRUCTOR GUIDE

## Unit 5 The Business Plan Level 2

### HOW TO USE PACE

- Use the objectives as a pretest. If a student is able to meet the objectives, ask him or her to read and respond to the assessment questions in the back of the module.
- Duplicate the glossary from the *Resource Guide* to use as a handout.
- Use the teaching outlines provided in the *Instructor Guide* for assistance in focusing your teaching delivery. The left side of each outline page lists objectives with the corresponding headings (margin questions) from the unit. Space is provided for you to add your own suggestions. Try to increase student involvement in as many ways as possible to foster an interactive learning process.
- When your students are ready to do the *Activities*, assist them in selecting those that you feel would be the most beneficial to their growth in entrepreneurship.
- Assess your students on the unit content when they indicate they are ready. You may choose written or verbal assessments according to the situation. Model responses are provided for each module of each unit. While these are suggested responses, others may be equally valid.

### Objectives:

- Identify how a business plan contributes to the success of a business.
- Identify the questions to be answered in a business plan.
- Outline the components of a business plan for your business.
- Discuss the importance of the presentation of the business plan.

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**1. IDENTIFY HOW A BUSINESS PLAN CONTRIBUTES TO THE SUCCESS OF A BUSINESS**

What is a business plan?

Define the business plan and explain the importance of planning in business. Use an overhead or chalkboard to list major issues to be considered in a business plan (e.g., What are the goals of the business? How will these goals be achieved? Who is the entrepreneur? . . .).

How does a business plan help entrepreneurs?

Invite a local entrepreneur to speak about what kind of assistance a business plan will offer to start and run a business.

An alternative to this approach would be to organize a field trip to a small business in your local community. It would be most interesting if the entrepreneur explained to the students how the business plan helped him/her to start and operate their business. Suggest that the entrepreneur assess how the business plan helped him/her to establish goals and objectives, evaluate resources and their use, assess operational and financial feasibility, and consider contingent strategies.

**2. IDENTIFY THE QUESTIONS TO BE ADDRESSED IN A BUSINESS PLAN**

What information should a business plan include?

Encourage students to suggest a business start-up idea (e.g., opening a new grocery store in your neighborhood). Use the outline presented in this section to assist students in understanding what sections should be included in a business plan. Create a chart listing the major sections of a business plan and refer to this chart as you explain how each section pertains to the business idea.

**3. OUTLINE THE COMPONENTS OF A BUSINESS PLAN FOR YOUR BUSINESS**

What does a completed business plan look like?

Students should review the sample business plan presented in this unit. Continue referring to the chart listing the major section of the business plan. Encourage students to identify each section of the sample business plan. Explain the concept of executive summary and the importance of the table of contents.

4. DISCUSS THE IMPORTANCE OF THE PRESENTATION OF THE BUSINESS PLAN

How do you present your business plan?

Ask students to explain how they write an essay. Using this discussion as a base, explain that a business plan, like every other written project, needs to be developed following certain steps (i.e., organizing and analyzing the data, organizing the project, creating charts and graphs, drafting the project, and developing the final draft). Use the same approach to explain how a high-quality business plan should be developed and presented. Focus on the written communication skills entrepreneurs must have to write effective business plans.

### MODEL ASSESSMENT RESPONSES

1. Any definition assessing the purpose of developing a business plan is acceptable. Students should have a good understanding of the reasons that business plans are developed (i.e., to guide the entrepreneur in starting and running a business, and to raise money from investors and lenders).
2. Prior to writing a business plan, entrepreneurs need to develop an *opportunity analysis*. This analysis is designed to ensure that there is market demand for the product/service that will be offered by the new business.
3. The major sections of the business plan are the *description of the business, marketing plan, production and operations plan, management plan, and financial plan*.

The *description of the business* section reveals the type of business, the products/services that the business will sell and their competitive advantages, and the goals and mission of the business.

The *marketing plan* includes two sections, the: (a) *market analysis* and (b) *marketing strategy*. (a) The market analysis evaluates the target market, its size and potential, the industry, and the competition. This analysis also estimates the market share of the business and strategies to attract and hold it. (b) The marketing plan section defines the marketing strategy (i.e., the product, pricing, promotion, and place strategies). Sales approaches, location, and channels of distribution are outlined in detail in this section.

The *production and operations plan* identifies the layout features, production and operations strategy, equipment and machinery, operating personnel, inventory methods, as well as suppliers and distributors.

*The management and organization plan* analyzes the legal form of ownership, legal regulations that the business will face, as well as legal and business consulting assistance the entrepreneur will need to secure.

*The financial plan* estimates the monthly cash flow and income for the first year of operations, as well as the annual cash flow and income for the first three years. A beginning balance sheet, a capital expenditure list, and a break-even analysis should also be included in the plan.

4. To present an effective business plan, the entrepreneur should make sure that the data in the plan is presented in a orderly and logical manner. The plan should be written in short, clear paragraphs, avoiding unnecessary words. The use of charts, graphs, tables, and appendices should facilitate the understanding of the business plan. The final draft should be error-free and should be printed on a good-grade paper. The use of a wordprocessor and laser printer, as well as a quality binder will give the plan a professional appearance.

# PACE

## THIRD EDITION

## Program for Acquiring Competence in Entrepreneurship

Incorporates the needed competencies for creating and operating a small business at three levels of learning, with experiences and outcomes becoming progressively more advanced.

**Level 1** — Understanding the creation and operation of a business.

**Level 2** — Planning for a business in your future.

**Level 3** — Starting and managing your own business.

Self-contained **Student Modules** include: specific objectives, questions supporting the objectives, complete content in form of answers to the questions, case studies, individual activities, group activities, module assessment references. **Instructor Guides** include the full text of each student module and lesson plans, instructional suggestions, and other resources. **PACE, Third Edition, Resource Guide** includes teaching strategies, references, glossary of terms, and a directory of entrepreneurship assistance organizations.

For information on PACE or to order, contact the Publications Department at the  
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(614) 292-4353, (800) 848-4815.

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The  
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Entrepreneur

Nature of  
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Business  
Opportunities

Global Markets

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Entrepreneur

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Ownership

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Selling

Record  
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Financial  
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Risk  
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# PACE

THIRD EDITION

## Program for Acquiring Competence in Entrepreneurship



CENTER ON EDUCATION  
AND TRAINING FOR EMPLOYMENT  
COLLEGE OF EDUCATION  
THE OHIO STATE UNIVERSITY

# THE BUSINESS PLAN

## BEFORE YOU BEGIN . . .

1. Consult the *Resource Guide* for instructions if this is your first PACE unit.
2. Read What are the Objectives for this Unit on the following page. If you think you can meet these objectives now, consult your instructor.
3. These objectives were met in Level 1:
  - List the reasons for having a business plan.
  - Identify the components of a business plan.
  - Discuss the importance of a business plan.
4. Look for these business terms as you read this unit. If you need help with the meanings, ask your instructor for a copy of the PACE Glossary contained in the *Resource Guide*.

Accelerated cost recovery system  
Break-even analysis  
Cashflow  
Channel of distribution  
Collateral  
Debt financing  
Default a loan  
Depreciation  
Distributors  
Equity financing

Executive summary  
Fixed costs  
Market share  
Prepaid expense  
Product support  
Reserve for contingencies  
Secured loan  
Variable costs  
Working capital

## THE BUSINESS PLAN

### WHAT ARE THE OBJECTIVES FOR THIS UNIT?

Upon completion of this unit you will be able to—

- identify how a business plan contributes to the success of a business,
- describe the circumstances for conducting a feasibility study,
- discuss the questions to be answered in a business plan, and
- outline the components of a business plan for your business.

### WHAT IS THIS UNIT ABOUT?

This unit is designed to explain the importance of business planning and to show the steps you should take to prepare a successful business plan. You will learn how entrepreneurs and lending agency representatives communicate with each other in order to raise money for starting new businesses.

You will learn about the questions that should be answered in a business plan—a procedure that should prove helpful when you develop your own plan. You will also examine a business plan, understand it, and learn how to write one on your own.

Writing a business plan is a complex task that requires information related to virtually all business areas—financial analysis, business financing, accounting, marketing anal-

ysis, operations, human resource management, and legal issues.

Prior to writing a business plan, you should complete an *opportunity analysis*. This analysis is designed to determine whether there is sufficient market potential for profit to warrant successful business start-ups. Basically, an opportunity analysis assesses your product and potential customers in the light of market demand. The Business Opportunities Unit of PACE offers additional information on the opportunities that are available to entrepreneurs in the marketplace.



## WHAT IS A BUSINESS PLAN?

Business planning is the systematic development of actions aimed at reaching business objectives. Simply defined, a *business plan* is a detailed written document that shows—

- *what* the goals of the business are,
- *how* these goals will be achieved,
- *who* the entrepreneur is,
- *why* the entrepreneur chose that particular business idea,
- *when* the business will start showing a profit, and
- *where* the business will be located.

## HOW DOES A BUSINESS PLAN HELP ENTREPRENEURS?

Each year, in good and bad times, many Americans pursue the dream of owning their own businesses. However, some of these businesses are not successful. Most times, the failure is due to the fact that the entrepreneurs did not plan carefully before they started their businesses.

In the excitement of opening the door of the business, many entrepreneurs believe that they will learn as they go. Because of the complexity of starting a new business, learning on the go may not lead to the expected results. Planning on paper helps you understand what you should learn before commit-

ting time and money to the business idea. Simply stated, business planning saves your time and money and teaches you what you should learn in order to avoid future expensive mistakes.

Developing a business plan helps the entrepreneur to do the following:

- **Establish Goals**—Goal setting precedes business planning. You can't hope to do a good job of planning a trip if you don't know where you are going. Likewise, without clearly defined business goals you have nothing to guide your planning. How do you plan to hit a target when you don't know what it is? A business plan requires specifying concrete, well-defined goals that will guide you in developing a complete business plan.
- **Determine Objectives**—After goals are set, objectives must be determined. Major goals aren't attained in one big step, but usually through several little steps called *objectives*. Think of these as a series of minor goals, which when added together, equal the major goal. Creating a business plan helps the entrepreneur determine what objectives must be accomplished, and at what time, in order to reach the big goals.
- **Assess Resources**—Resources include people, capital, equipment, and facilities. They are needed in a specific combination in order to accomplish objectives. Entrepreneurs need to make an accurate assessment of the resources available. Writing a business plan leads the owner through this assessment.

- **Outline Use of Resources**—The different functional areas of a business, such as marketing, production/operations, management, and finance, must all work together to achieve the company goals. Resources must be used efficiently and effectively in each of these areas in order to accomplish objectives. Central to creating the business plan is analyzing what must be done in each of these functional areas and deciding upon strategies or planned actions for each.
- **Evaluate Operational and Financial Feasibility**—After goals are set, objectives are determined, resources are assessed, and strategies are established, the entrepreneur must objectively assess whether it is operationally and financially feasible. Are the plans doable? Only after going through the process of developing a business plan can the owner see what human and financial resources will be required to achieve the proposed goals.
- **Consider contingent or alternative strategies**—One of the first things any business person learns is that change is constant and often unexpected. The entrepreneur has two environments to deal with—*internal* and *external*. The internal environment is your business. The external environment is your business community, or largely, the marketplace. Managing the response to the changes affecting the internal and external environments is critical to business success. A business plan helps entrepreneurs consider possible responses to changes in the marketplace (e.g., competitive actions, industry-wide changes, new environmental regulations, etc.) and

to the organization (loss of key personnel or other key resources).

- **Communicate your plans**—Entrepreneurs must communicate their ideas, needs, and plans to investors, lenders, employees, suppliers, government agencies, and sometimes to customers. A well-prepared business plan is an effective communication tool that will help you communicate your thoughts clearly and concisely.

## WHAT INFORMATION SHOULD A BUSINESS PLAN INCLUDE?

A great deal of information, some of it quite detailed, needs to be included in the business plan. Before you can develop a plan, you need to become familiar with the information. You will understand the business plan more clearly if you remember that it contains five major sections, each describing an important part of the business.

- Part 1. Description of the Business
- Part 2. Marketing Plan (Market Analysis and Marketing Strategy)
- Part 3. Production and Operations Plan
- Part 4. Management Plan
- Part 5. Financial Plan

Eventually, you will learn how to collect materials to develop a business plan. For now, you need to know only what kinds of information to seek for each section. To help you become familiar with the business plan, a number of questions are asked about each of the five sections. After you become familiar with the questions that each section

should answer, you will analyze a sample business plan to see how it answers the following questions.

### **Part One: Description of the Business**

- What type of business are you planning (retail, wholesale, manufacturing, service)?
- What product/service will you sell?
- What are your product's unique competitive advantages?
- What are the growth opportunities?
- What are your goals and objectives?

### **Part Two: Marketing Plan (Market Analysis and Marketing Strategy)**

#### **A. Market Analysis (i.e., identify and evaluate the market)**

- What is your target market (i.e., who are your potential customers)?
- What is the current and potential size of your market?
- What is your estimated market share (i.e., what is the dollar amount consumers in the market are likely to spend on your products)?
- How will you attract and hold your share of the market?

- What are the industry characteristics and trends?
- Who are your competitors and how successful are they?

#### **B. Marketing Strategy**

- What is your pricing strategy?
- What is your sales strategy?
- How will you promote your product?
- What product support will you offer (i.e., warranty, service, customer training)?
- Who will be your suppliers?
- What channels of distribution will you choose (i.e., who will be your distributors)?
- Where will your business be located?
- What factors influenced your choice of location?
- What are the features of your location?
- How does location contribute to your marketing plan?

### **Part Three: Production and Operations Plan**

- What layout features are required for your office/facilities/plant?

- What equipment and machinery will you need?
- What production/operations strategy will you use?
- What inventory methods will there be in place?
- What operating personnel will you need?
- How will your suppliers and distributors fit into your operations strategy?

#### **Part Four: Management and Organization Plan**

- What legal form of ownership will you choose? Why?
- What regulations do you face and what licenses do you need?
- Do you have outside advisers and support services lined up?
- What will your organizational chart look like?
- What management functions must be filled and who will fill them (i.e., who will be the finance manager, marketing manager, operations manager, and general manager)?
- How many employees do you need and what are their functions?

- What are your plans for employee hiring, training, supervision, compensation, and benefits?

#### **Part Five: Financial Plan**

- What will be your estimated income for the first, second and third years? What will be your monthly estimated income for the first year?
- What will it cost to open your business and sustain it for the first 18 months?
- What will be your estimated cashflow for the first, second and third years? What will be your monthly estimated cashflow for the first year?
- What sales volume is needed to sustain these income projections?
- What is your break-even point in terms of sales dollars and units sold?
- What will be your projected balance sheet on the day before you expect to open?
- What will your personal financial needs be?
- What are your potential funding sources? How will you use the money you will borrow from lenders and investors?
- How will you repay your loans and will they be secured?

## WHAT DOES A COMPLETED BUSINESS PLAN LOOK LIKE?

You should start a business plan with an *executive summary*. An executive summary is a concise, crisp presentation on the most important facts included in the plan. By looking at the executive summary, one should be able to quickly understand what the business plan is all about. For this purpose, the executive summary should include a sentence about the business opportunity that drives your business plan.

The next item to be incorporated in the business plan is the *table of contents* or *outline*. The outline should be short but informative. Under each of the major five sections that need to be included, you might want to list topics covered in each one of the sections. The table of contents should help the reader easily locate each section in the business plan and inform his/her about what each section presents.

The main body of the business plans discusses in detail the *five major sections*—the description of the business, marketing plan, operations/production plan, management/organization plan, and finance plan. Following these, most business plans include appendices. The content of these appendices varies according to the particular plan. Typical types of information included are—

- resumes of the owner(s) and key personnel,
- market data that support the market analysis,

- tables with financial data, and
- other supporting data.

## HOW DO YOU PRESENT YOUR BUSINESS PLAN?

To succeed in your business, you must sell your abilities and ideas to others. A well-written and presented business plan can help.

The business plan will be more positively received if the mechanics of it make it easy to read and understand. Following are some suggestions to improve readability of your plan.

**Organizing and Analyzing the Data.** You should use a loose-leaf notebook with dividers as you are collecting the information and making decisions about your future business. When you feel you are ready to develop the business plan, you should start by revising the materials you have collected in each section. You may find it helpful to number your notebook pages and classify each section into subtopics.

You should list the subtopic headings on note cards, reference the page numbers, and clip similar subtopics together. You might also want to hold the cards for each section together with rubber bands. Thus, you will be able to arrange the collection of cards into the same topics as the business plan outline, that you will follow to write your plan.

**Organizing the Business Plan.** The entrepreneur refers to the five-section outline as a guide for developing the business plan. The outline should lead the reader through a logical discussion of the topics from introduction to ending.

**Charts and Graphs.** You should present complicated data using charts or graphs. This is especially important when you need to call your reader's attention to financial data. An organizational chart is also best presented in graphic form. Just remember to keep your reader in mind. Prospective investors and lenders are not interested in a chart, table, or graph unless they are important to understanding the business plan. Make sure the data in each chart or graph is accompanied by short explanatory sentences.

**Drafting the Plan.** You are faced with a major task when you sit down to write your business plan. You must transfer what may seem to be a mountain of data into a readable proposal. Your business plan will read best if you write in direct, clear conversational language, just as you would describe the business if you were telling your banker about it.

Write only the essential information without cluttering your sentences with adjectives. To do that, you should use short, single-topic paragraphs written in simple, familiar words. Eliminate any unnecessary words and avoid slang.

- You will need to revise your business plan several times before presenting it to a prospective lender or investor. Even the best of writers goes through a number of revisions before they publish their writing. You might need to ask someone who knows how to write clear reports to edit your draft. The

more people's opinions you get the better your plan will become.

Before you complete your final draft, ask yourself whether there are any statements irrelevant to the text and take them out. Make sure that every sentence and chart directly contribute to the purpose of the plan. At all times, keep in mind that your audience does not want to spend too much time trying to understand your business plan.

**Presentation and Appearance.** No matter how good your business plan, it will be of little use if the person you intend it for doesn't read it. The appearance of the plan presents your reader with a first impression that you want to be positive.

If your plan is typed carefully in short paragraphs, with clear headings, plenty of "white space," a well-designed cover page, and a functional binder or heavy duty staple, it will make a good appearance.

Typing the plan is a mechanical function to be carried out by a competent typist. However, you should make sure that the plan is typed without error on a good grade of paper. Be sure to provide a sufficient number of clear copies.

Finally, keep in mind that you need investors and bankers more than they need you. Your business plan should be brief and informative in order for you to compete successfully with the multitude of entrepreneurs who want to start a business.

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### **ACTIVITIES**

The following activities are designed to help you apply what you have learned in this unit.

#### **INDIVIDUAL ACTIVITIES**

##### **A.**

The following is a sample business plan. Take your time and read this plan carefully. First, you should skim through it to identify the major sections, tables, and financial statements. Next, you should go back and read the business plan thoroughly, paying attention to details. You might find it helpful to read this more than one time. As you read, try to identify how each section relates to the questions that should be answered in a business plan.

Sample Business Plan: American  
Bio-Tech Bamboo, Inc.\*

AMERICAN BIO-TECH BAMBOO, INC.

P.O. Box 358  
Athens, TN 37303  
Telephone 615-745-9363

April 2, 1992

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\* Sample business plan used by permission of the Distributive Education Clubs of America (DECA). For additional sample business plans, contact the above at 1908 Association Drive, Reston, VA 22091-1594.



## Sample Business Plan: American Bio-Tech Bamboo, Inc.

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Because of space limitations not all of the Appendices and Exhibits are included in this reprint of the ABB business plan. These lists give the reader an idea of what information was considered important by the authors.

## I. Executive Summary

### The company

**American Bio-Tech Bamboo, Inc. (ABB)** was formed in December 1991 to exploit new tissue culture methods developed for the mass propagation of bamboo. The Company will produce young plants (4 inches tall) of different species of valuable bamboo and distribute them to regional wholesale nursery growers in the United States and the world. These wholesale distributors will then sell to the ultimate customer—other wholesale nurseries, retail nurseries and landscape contractors.

### ABB's goal

ABB's goal is to become the dominant producer and supplier of tissue cultured bamboo plants in the United States. Once having consolidating our position in the U.S. ornamental bamboo market, we will move into ornamental bamboo markets in Europe and Asia. Long term, ABB will expand into the following markets ranked in order of desirability: food, paper, reforestation, and fuel.

### The market

The U.S. nursery industry is growing rapidly and includes over 5,000 wholesale nurseries. Industry sources indicated a compound annual growth rate of 9 percent over the last five years. Greenhouse and nursery agriculture are out-pacing all major farm sectors with 1990 revenues of \$8.1 billion, 1991 revenues of \$8.7 billion and estimated 1992 revenues of \$9.5 billion. Latest estimates of U.S. ornamental bamboo sales is \$36 million. Our contacts believe that ornamental bamboo has mass market sales potential of \$250 million within 10 years.

### The opportunity

Traditionally, bamboo has been very difficult to grow as a horticultural crop. Bamboo has an unusual productive cycle that only produces seeds every 20 to 60 years or more. Therefore, growers have had to rely on the natural spreading of the bamboo plants and on digging up new underground stems called rhizomes to increase their stock. **ABB is the only tissue culture lab in the United States with the new break-through technology that allows the clothing of large quantities of bamboo plants.** This exciting new technology allows ABB to move beyond the inefficient traditional propagation methods and become the dominant producer and supplier of young bamboo plants in the world.

### Competitive advantages

ABB will make full use of the following advantages:

- ABB has international contacts for source material.
- ABB has a USDA seed import permit.
- ABB is the only company that can supply young bamboo plants to wholesale growers in large quantities.
- ABB will protect its unique products and technology with patents, registered brand names and copyrighted trade names.
- ABB's new production method will allow ABB to produce its plants for 20 cents, less than one-third the cost of traditional nurseries.
- ABB will ally itself with large established bamboo growers who have extensive industry contacts and long experience with bamboo.

#### **ABB's management team and founders**

**Simon Liao.** President/CEO, Head of Operations. Mr. Liao's knowledge of bamboo and extensive bamboo research contacts in China will allow him to manage our production lab. He has an MBA from the University of Georgia.

**William Hornaday.** Vice President, Marketing, Sales and Distribution. Mr. Hornaday's experience as a Navy Supply Officer has given him the skills, knowledge, and global perspective needed for the job. He also has an MBA from the University of Georgia.

**Susan Woods.** Chief Researcher, Head of Research and Development. Mrs. Woods is an experienced biology professor and researcher. She made the breakthrough that makes it possible to tissue culture bamboo after three years of intensive research.

**Dr. John Woods.** Research Assistant and Long-Range Planning. Dr. Woods is also an experienced biology professor and researcher. He has extensive knowledge of bamboo and bamboo research and he is pushing hard for the development of bamboo as a commercial crop in the U.S.

The Company is a C corporation and ownership is divided equally among the four founders. ABB has an advisory team consisting of several nursery managers, plant patent lawyers and business consultants.

#### **Financial**

The Company will seek \$500,000 in start-up capital. Sources of capital currently being explored are individual venture investors—"angels," initial public offering and venture capital funds. Our financial projections show:

	Sales	Net Income
Year 1	\$240,000	(\$136,760)
Year 2	\$960,000	\$250 827
Year 3	\$1,740,000	\$621,071

### Future growth opportunities

As ABB grows there will be additional opportunities to expand into new potential markets for bamboo.

- *Ornamental.* There are large bamboo markets in Europe and Asia that we will expand into after we become established in the U.S. These markets will be penetrated via subsidiaries that ABB will establish.
- *Food.* Bamboo has enormous potential as a food crop in the United States. In 1990, \$180 million of food bamboo was imported to the U.S. After the ornamental market is established this market will be pursued first. The initial target market will be Asian population centers.
- *Paper.* 70 percent of the paper in India and 25 percent of the paper in China is made from bamboo. With paper pulp shortages plaguing the U.S. paper industry, U.S. manufacturers may be interested in bamboo which grows four times as fast as pine and has a comparable fiber yield.
- *Reforestation.* Our bamboo plants can be used as an aid to environmental conservation efforts. Third world governments are increasingly trying to protect their natural environments and bamboo could be a valuable tool in their efforts.
- *Fuel.* In the 1950s the U.S. Army conducted studies on the use of bamboo as a clean, renewable fuel source. The problem at that time was a lack of a large, reliable source of bamboo which we have now solved.

ABB is excited about the potential of all of the above areas but we realize that we cannot pursue them all at the present time. We have limited resources and we must keep our efforts focused and concentrated on one area—the ornamental bamboo market in the U.S. Once we succeed in our initial venture, we will have the resources to pursue these other areas.

## II. Bamboo and Bio-tech: A Venture Opportunity

Bamboo is one of the most important non-timber woody resources in the world. An estimated 2.5 billion people, or half of the world's population, depend on bamboo for more than 1,500 different uses, such as food, housing, fuel, tools, furniture, handicrafts, construction, sports, and paper. This is especially true for east and southeast Asian countries where bamboo has been closely related to the culture and daily life for thousands of years ("The Book of Bamboo").

Among other outstanding characteristics, bamboo is probably the fastest growing plant on earth. It takes five years to establish a mature dense grove. Once a bamboo grove is formed, it can be reharvested for years without replanting.

Although there is a great potential for selling bamboo in the U.S. and although many species can be grown over most of temperate North America, bamboo is not being grown on a large scale in the United States. The typical bamboo species flowers and produces seeds only once in 20 to 60 years or more. After producing seeds the grove will gradually die. Thus, asexual reproduction methods have been the traditional techniques used. This involves digging clumps of rhizomes (the underground stems), separating, moving, and replanting them. This inefficient method prohibits large scale planting and has prevented the full exploitation of bamboos in the U.S. Yet, there is a steadily increasing demand for bamboo plants that is not being met by current suppliers.

American Bio-Tech Bamboo (ABB) has solved this supply problem. Through three years of intensive research and experimentation John and Susan Woods, major shareholders of ABB, developed a unique method for mass-propagation of bamboo (see Appendix 7). Thanks to this tissue-culture method, young plants of different bamboo species cannot be "cloned" in large quantities. When produced in quantity, the unit cost of these plants is much lower. This major breakthrough has given ABB the key to a market with tremendous commercial opportunities.

In our initial research we found five uses for bamboo that might be good business opportunities in the U.S.: food, fuel, paper, reforestation, and ornamental. Based on our market analysis, we decided that although all five areas have great potential in the U.S., we will concentrate on the ornamental segment first using a "build-up" strategy.

Our build-up strategy, as shown in Exhibit 1, is to penetrate a small market initially to prove the viability of ABB. This strategy will provide a base to launch the company into the more lucrative markets found in Food, Paper, Reforestation and Fuel. We determined that an attempt to penetrate the larger markets would not be feasible due to enormous start-up costs and lack of credibility and expertise.

**Exhibit 1**  
**Comparison of Potential Bamboo Markets**

	Start-up Costs	Market Characteristics	Lead Time	Competition	Market Potential	ROI	Risk
Ornamental	Low <\$1 million	-Existing Market -Existing Distribution Channels	6 Months	Low	Medium	-High (Short Term) -Medium (Long Term)	Low
Food	Medium \$3—\$5 million	-Existing Market -No Domestic Producer	3 1/2 Years	-High in Preserved Shoots-Low in Fresh Shoots	High	Medium (Long Term)	Low to Medium
Paper	High >\$5 million	-Existing Technology -Large Overseas Market -No U.S. Producer	4 Years	Medium to High	Very High	High (Long Term)	Low
Reforestation	Medium to High >\$3 million	-Recognized as an Effective Means of Reforestation -No Existing Market for Bamboo	6 Months	Low but High Demand	Very High	-Medium (Short Term) -High (Long Term)	Low
Fuel	High >\$5 million	-Some Research Done -No Existing Market	4 Years	High (Pine Tree)	Very High	Medium (Long Term)	High

Factors that made the ornamental market the logical start-up choice were:

- There is an existing and increasing demand for ornamental bamboo species in the U.S.
- Start-up cost will be relatively low since there is no necessity to purchase or lease large amounts of land
- There are existing distribution channels for ornamental bamboo species.
- The production cycle is short and will bring quick returns. The whole procedure takes only six months for undifferentiated cells to develop into 4-inch-tall plants.

### III. Market Characteristics and Trends

The U.S. nursery industry is growing rapidly. In 1990, total industry revenue exceeded \$21 billion, up from \$16 billion in 1989—a 31 percent increase. According to Kurt Bluemel, a large nursery grower in Maryland, the compounded growth rate for the nursery industry has been about 9 percent over the last four years. This industry includes more than 5,000 wholesale nurseries (target customers) and even more retail operations. According to agricultural economist Doyle

C. Johnson, in 1990 the wholesale grower segment of the nursery industry had sales of \$8.1 billion, in 1991 it was \$8.7 billion and in 1992 is expected to be \$9.5 billion.

In our search for market information we identified the American Bamboo Society (ABS) as a source. ABS, headquartered in California, was founded in 1965 and currently has a membership of 950 bamboo growers, researchers, and hobbyists. ABS provided us with a list of 31 commercial growers located in 14 states (see Exhibit 1 for the market structure of the nursery industry). We also contacted several large-scale growers who are not members of this organization but are interested in our species.

An important result of this research was that one of the primary customers of bamboo growers are industrial landscapers who use the plants for ground covering or other applications. Currently, there is a trend in the landscaping trade to utilize an increasing number of novel and exotic plants, such as bamboo. One California designer we contacted recently won an international design competition using bamboo.

The residential market demand for ornamental bamboo is experiencing the same trends as the industrial market. Bamboo growers have indicated that when bamboo becomes better known due to its extensive use as a landscaping plant and when existing prejudices about this plant resulting from customers' ignorance are overcome, residential gardeners will discover bamboo as an attractive substitute for existing plants. According to the National Gardening Association, gardening is in the state of a growth spurt. Baby boomers are approaching middle-age, which is the prime age for spending on lawn and garden products. Also, "the new generation of gardeners is younger and more affluent," (A. Cook: "Digging for Dollars," American Demographics, July 1990). This fact suggests enormous opportunities for bamboo because younger gardeners are more open to novel and exotic plants, such as bamboo, and they have the money to pay a premium for the high-quality species we can provide.

Historically, prices for some bamboo species have been extremely high. For example, Kurt Bluemel, Inc. in Maryland sells a one-year-old "umbrella bamboo" in a one-gallon container for \$75. At our cost to produce this type of seedling is less than \$2. It's these types of plants we'll provide to growers throughout the country. Nurserymen will gladly pay \$2 for a plant they can keep for one to two years and then sell for \$75!

In order to project demand for its products, ABB conducted its own market research via a mail questionnaire to 76 nurseries in 24 states on October 18, 1991. Twenty-seven questionnaires returned to ABB, a response rate of 36 percent. A list of these respondents is attached (see Appendix 1).

This questionnaire was designed to ask the sample nurseries to estimate their demand for nine of ABB's tissue-cultured bamboo plants and to give their comments as to the desirability of these species. The respondents had a very positive view of the potential of our tissue-culture process and were excited about the opportunities this technical breakthrough would bring to them. The

estimated demand from this questionnaire totaled 35,000 plants with a corresponding sales value of \$70,000. The following are some responses from our questionnaire:

"This breakthrough of yours is very exciting. Actually we could eventually sell 100's and 1000's of young plants and grow them on to specimen size as well. Congratulations on your new technology."—Daphne Lewis, Bamboo Gardens of Washington

"I am very interested in these developments. You can use these numbers in my initial order."—Paul Babikow, President of Babikow Greenhouses

"We would be interested but we must see the quality of the plant you intend to ship. Also, how regular would your availability be. Try to do more varieties or numbers for Zones 5 and 6.—Limerock Ornamental Grasses, Inc. (placed an order for 3,000 plants.)

"Fine idea! More small growing or clumping bamboo should be made available!—Coastal Gardens & Nursery

(For more comments and responses, see Exhibit 3.)

There is tremendous potential in the U.S. landscaping market, which is currently becoming aware of bamboo. California, Florida, and other southern states are high-demand regions for ornamental bamboo due to the favorable warmer climate which some species require. ABB, located in Athens, Tennessee, has great opportunities to meet and increase this demand. ABB's market, however, is not restricted to southern states, since we are able to supply bamboo species that can take lower temperatures (see Exhibit 4 for ABB's growing zones). Bamboo growers throughout the country are positive that bamboo is gaining substantial importance as a landscaping plant in the whole U.S.

#### IV. Competition

ABB's potential competitors may be divided into three categories:

- Tissue culture laboratories
- Nurseries that grow bamboo
- Substitute products

##### Tissue-culture labs

In the United States there are over 90 tissue culture laboratories currently doing research on mass propagating plants through tissue-culture methods. An example of domestic tissue-culture lab is Agri Starts II, Inc., located in Apopka, Florida. This particular lab has offered to pay royalties to ABB for the proprietary use of the tissue-cultured Herbaceous (*Lithachne Humilis*) bamboo.



To our knowledge none of these tissue-culture labs are focusing on bamboo and that it typically takes six to 36 months to develop a successful new protocol.

There is a handful of international scientists who have claimed success with bamboo tissue culture. In India, at the Kerala Forest Research Institute, they are attempting to mass-produce bamboo species for use in paper-pulp production (using different species from ours). In Taiwan, scientists Huang and Chen have published articles about propagating the species *Bambusa Oldhamii*, *Bambusa Multiplex* and *Sasa Pygmaea*. In Europe, research is also being conducted by scientists A. L. Nadgir, C. H. Phadge, P. K. Gupta, V. A. Parsharmi, S. Nair, A. F. Mascarenhas as well as A. A. El-Hassan and P. Debergh. Yet their work is primarily research-oriented and has little commercial impact. Dr. and Mrs. Woods recently visited a Belgium tissue-culture lab that claimed it is tissue culturing several bamboo species. However, the on-site visit revealed that the actual plants are of inferior quality to ours. Facts of this nature cause us to believe that in addition to our patents, brand name, and trademark protection, ABB will still enjoy a two-to-three year lead time in Research and Development over our potential competitors.

### **Nurseries**

The second group of potential competitors are bamboo growing nurseries throughout the United States, which are mostly members of the American Bamboo Society. Yet, most of these nurseries do not regard bamboo as their major business. They try to keep bamboo exclusive by selling a very limited number of plants. They see bamboo as a hobby and use this hobby as a sideline to their business.

There are, however, a small number of nurseries that sell a large volume of bamboo. Two of the largest are Kurt Bluemel, Inc. and Tornello Landscape Corporation.

#### **Kurt Bluemel, Inc.**

Located in Baldwin, Maryland, this landscape design, landscape contracting, and nursery business offers the largest selection of ornamental grasses for sale in the United States. Bluemel's nursery grows more than 500 different ornamental grasses of which bamboos are a major line. Bluemel has committed to selling large plants at a premium. For example, 30-foot-high bamboo plants in 20-gallon containers sell for \$175 to \$200. Bluemel also has good European contacts.

Since American Bio-Tech Bamboo supplies very young and small bamboo plants, Bluemel will not be a significant competitor. Indeed, the nursery has expressed keen interest in becoming a major customer for our products.

#### **Tornello Landscape Corporation**

Located in Ruskin, Florida, Tornello Landscape Corp. is an exclusive grower of bamboo with revenues estimated to be approximately \$1 million per year. Tornello sells large bamboo plants to landscapers throughout the country and abroad. This company is very interested in forming

a partnership with ABB or becoming an investor in our company. (Tornello's operation will be discussed in more detail in the "Joint Venture" section).

Based on our conversations with Bluemel and Tornello, we concluded that conventional bamboo growers will become ABB's customers rather than competitors because both sell large, two to three year old plants whereas ABB sells young, four inch plants.

### **Substitutes**

American Bio-Tech Bamboo's products may face competition from substitute products. First, there are other ornamental grasses that may be used for landscaping. Most of the nurseries that grow bamboo also offer other ornamental grasses. As already mentioned, Bluemel grows about 500 different species. Most of these grasses, however, require high maintenance and they do not have the unique characteristics of bamboo. The same is true for the second type of potential substitutes, which are other ground covering plants that are being used at the moment. Bamboo is unique in that it has a serene quality no other plant has, needs little care, is almost pest-free and is evergreen. Even in-house, bamboo is one of the most forgiving of plants.

### **V. Goals and Strategies**

ABB's corporate goal is to become a profitable business with leading biotechnology in bamboo tissue-culturing. ABB will achieve this goal over three years.

#### **Goals for Year 1:**

- Sales of \$240,000
- Secure brand name and patent protection
- Set up the organization
- Achieve adequate capitalization
- Improve research and production facilities
- Sell three bamboo species (*Oatea Acuminata Aztecorum*, *Lithachne Humilis*, and *Phyllostachys Aurea*)
- Complete R&D on three new species
- Continue exploring joint venture opportunities
- Establish regional plant hardiness testing sites

#### **Goals for Year 2:**

- Sales of \$960,000 Establish six regional distributors
- If a joint venture agreement has not been completed build a new production lab

- Sell at least Six bamboo species, adding *Fargesia Murielae*, *Phyllostachys Nigra*, and *Sasa Veitchii* to our existing product line
- Secure patents for new species
- Financially in year two we anticipate a profit of \$251,000

### Goals for Year 3:

- Sales of \$1,740,000
- Focus research efforts on genetically changing the characteristics of some of our species
- Explore the feasibility of expanding our production of bamboo species for the other four uses of bamboo (those uses are food, fuel, paper pulp, and reforestation)
- Establish European and Asian distributors
- Financially in year three we anticipate a profit of \$621,000
- ABB's long term corporate strategy is to establish itself in the five markets for bamboo. Initially our efforts will be focused on the ornamental market. Once ABB is secure in this market it will then move into the other four areas. For each new area a subsidiary company will be formed, and a holding company created to control operations. All subsidiaries will utilize ABB's tissue culture technology for plant production.

ABB's start-up strategy is to position itself as a high-volume and high-tech primary producer and supplier of valuable ornamental bamboo species for the U.S. and the world market. By mass-producing tissue-cultured young plants and selling them to wholesales and retail nurseries, ABB will be able to establish a solid and profitable business in the ornamental/horticultural market.

ABB anticipates a premium price for its products. Currently in the U.S. there is no existing supplier of bamboo capable of producing large quantities of young plants at the request of customers. As previously mentioned, this has prevented the market from being fully developed and has driven the prices for some rare species very high. Through ABB the demand for such species can now be met at an affordable price.

## VI. Products

ABB's products are young bamboo plants grown to liner size (approximately 4 inches) and then sold to whole sale growers across the United States and Europe. ABB has developed and tested nine tissue culture protocols and three species can now be successfully propagated. These species are listed on the survey forms in Appendix 1.

There are two basic kinds of bamboo—the "runner" and the "clumper." Runners are the type that have given bamboo the reputation as an invasive and hard-to-control plant that will spread in all

directions unless properly controlled. The clumpers, on the other hand, grow around a central clump. All new shoots stay close to the parent plant and the bamboo stays in one location.

On the whole, the clumping bamboos are more desirable than the running ones in the ornamental plant market. Of the nine species we currently plan to produce, six are clumpers. Two of the species will play an especially significant role. They are the *Fargesia Muriale*, "Umbrella Bamboo" and the *Lithachne Humilis*, "Sleeping Princess." The "Umbrella Bamboo" is a beautiful clumping bamboo that can withstand temperature as cold as 20 degrees below zero and has nationwide market potential. "The "Sleeping Princess" (Exhibit 5) has outstanding potential as a ground-cover plant and it is virtually unknown in this country. It is a very attractive plant, with bright green leaves, that grows to 18 inches. An interesting characteristic of this plant is that the leaves fold up at night, hence the name.

Ground covers are used in high volume. It is not uncommon for a landscaper or designer to place a single order for 20,000 or more plants. Our other species show promise as well, but we think the biggest payoff will come from new plants like "Sleeping Princess" that can be introduced to the U.S. market for the first time by ABB. As these plants become popular they will be known throughout the industry by our trade name creating additional awareness and interest in our plants and our company.

On the other hand, some running species (like *Phyllostachys Aurea* or the "Golden Bamboo") are very attractive in large yards or when used as fences. Also, some runners are excellent for paper pulp and other applications. Therefore, ABB will include some running species in its product line. The following table (not included here) presents ABB's planned product line.

ABB plans to introduce three to four new species in the market every year and to de-emphasize older ones as demand falls. New plants will be selected based on favorable characteristics (beauty and cold-hardiness) and customer demand. As we look at new plants we will contact our customers to see if they are interested in receiving samples.

## VII. Patents, Brand Names and Trade Names

ABB will protect its market and its product through the use of patents, brand names and trade names. Each species of Bamboo requires a different tissue culture protocol, and each protocol can have its own individual patent. Each patent will cost \$2,000 so we will not begin submitting applications until start-up commences. These patents will protect us from other tissue-culture labs and ensure that they cannot use our techniques without the company's consent. We will also protect ourselves by establishing the BIOSTAR brand name and developing trademark names for our different plant species. This technique will be most effective with new plants, such as *Lithacne Humilis*, that are not known in the U.S. market. We will introduce *Lithacne* a "Sleeping Princess" and that name will become the commonly used name for the plant which will create market awareness for ABB. The more common bamboos that are already available on the market will be jointly sold under the BIOSTAR brand name and the plant's scientific name or common name. For example, one of the plants we will initially sell is *Oatea Acuminata Aztecorum* or

Mexican Weeping Bamboo. This particular plant is already well-known by its common name, so we will use BIOSTAR brand name as a symbol of quality and innovation throughout the nursery industry (the application for registration of brand name is shown in Appendix 5).

### VIII. Research and Development

Asexual reproduction of plants through the tissue-culture method is not new. Since Dr. Steward successfully tissue-cultured the carrot in 1958, this biotechnology innovation has been widely applied to generate new plants. It was not until the mid-1980s that research on tissue-culture of monocots had been reported successful. Bamboo, a monocot, is even harder to tissue culture. There is no universal method that can be readily applied to all bamboo species. For each species a particular tissue-culture protocol has to be developed and tested to ensure it works. The initial research requires a long time (it took the Woods three years to develop their first successful protocol). On average it takes three to four months of full-time research to develop a new tissue-cultured species.

One unique feature of the Woods' research is their use of liquid suspension cultures, which has resulted in increasing plant regeneration by several orders of magnitude over other traditional tissue-culture methods. This method will show its great commercial advantage when a huge number of bamboo plants are in immediate need when the availability of germplasm of certain species is limited. No one else has been able to get similar results. This method also greatly increases ABB's chance to win the evaluators' favor when it applies for a plant or process patent.

A critical ingredient to successful new Research and Development is the development of a plant material source network of quality germplasm (seeds and other live plant materials) from which tissues can be obtained and developed into new plants. At present ABB has 15 sources in the U.S. and over the world (see Appendix 9). Dr. Woods and Mr. Liao have personal connections with the organizations or individuals in Appendix 9 and have acquired plant materials from them.

Additionally, several nurseries offered to provide us with rare species so we can tissue-culture these plants for them. With these domestic and international connections, ABB has secured dependable access to high-quality species. The Woods recently acquired germplasm of seven bamboo species during the International Bamboo Conference held in Thailand in November 1991.

After establishing reliable regeneration systems, ABB will devote its Research and Development efforts to genetic improvement of various bamboo species. This will not only add more desirable traits to ABB's plants but will also give the company a powerful weapon to guard its long-term competitive advantage in the business.

One additional point is that the U.S. Customs Office has strict regulations and restrictions on plant materials imported into this country. Live plants are quarantined for one year before they can be shipped to their destination. This process not only makes for long delays but also kills the plants. Even seeds are not allowed to be brought into the United States. ABB is fortunate

in that Dr. Woods is one of those few who have had USDA's special permission to bring in seeds or other plant materials.

### **IX. Marketing, Sales, and Distribution**

ABB will participate in trade shows such as the Tropical Plant Industry Exhibition, in Fort Lauderdale, Florida. By exhibiting in these industry events ABB will be able to reach large numbers of diverse prospects (wholesale growers, interiorscape and maintenance firms, garden centers, landscape architects, etc.) in a very cost-effective manner. Making initial contacts through trade shows can be up to 75 percent more cost-effective and time-efficient than doing so through direct sales calls.

For ABB's marketing mix, we have identified and will concentrate on the "Four P's" as follows:

1. **Price.** When we have a rare species with a high market value, we will price that particular plant at a premium. However, we will be the low-cost producers in the industry because of our technology and production processes, and therefore can compete on price if necessary. In general, wholesale prices will range from \$1.50 to \$2.50 per plant, depending on plant size, availability, and attractiveness.

2. **Product and packaging.** ABB's liners will be packed for shipment in standard nursery "flats" in our production facility in Athens, Tennessee. In addition, this method of packaging should provide adequate protection and insulation necessary for survival of the plants. A 15 percent buffer will be shipped with each order to cover any loss of plants in shipping and replanting processes.

3. **Place (distribution).** Small orders (up to 500 plants) will be shipped via UPS. Large orders (greater than 500) will be shipped via truck lines. Both types of delivery are standard in the wholesale growing industry.

#### **4. Promotion.**

a. **Sales.** ABB's direct-selling efforts will initially be conducted through telephone solicitation and catalogs. These methods will be used to contact those nurseries and growers who have the most demand potential. Four percent of the firms in the wholesale industry account for 49 percent of total industry sales (Exhibit 6). It is this 4 percent that we must target most heavily. Additionally, phone lines can serve as customer service and Q&A help lines. These duties will primarily be handled by William Hornaday, ABB's vice president of marketing and sales.

ABB's catalogs and direct mailings will also help to facilitate the sales function. These are the most common, efficient, and effective sales support tools employed in the wholesale foliage industry. Approximately 90 percent of wholesale firms use catalogs and 35 percent use direct mail. In order to further support these selling methods, ABB will offer customers and prospects samples of species in which they have an interest. This will allow these prospects and customers

to inspect plant quality and test samples for cold-hardiness. We have budgeted \$200 a month for this purpose.

b. **Customer education.** We intend to educate potential customers and end-users about bamboo usage and benefits and create awareness of ABB as a company. Also, this will cultivate a positive image for the company and its products.

Booth prices for the Fort Lauderdale show range from \$725 to \$4,500. ABB will participate in this and several other trade shows. These trade show marketing efforts will be supported by specific direct-mail campaigns designed to maximize booth visitation. Free advertising specialties (calendars, pens, note pads, etc., featuring the ABB logo) will be available at our booth. At these types of shows, we may also have some sort of contest, sweepstakes, or giveaway, which would help in drawing the maximum number of prospects to ABB's booth.

Advertising via direct mail and through trade journals can reduce the selling time required to close a sale by about 65 percent. We currently have \$1,000 per month budgeted for advertising, which we feel should be more than adequate in this particular industry. We will also submit articles to the trade journals in order to gain low-cost, beneficial publicity for ABB's unique technologies and for bamboo usage in general.

ABB will educate potential users with a product-oriented bamboo message via direct-mail flyers and major trade publications. Examples of these publications include *Nursery Manager* and *Southern Landscape Architecture*. In addition, ABB will also advertise and have product listings in Betrock Information System's *PlantFinder*, which is a wholesale guide to ornamental plants. *Plantfinder*, for instance, costs only \$2.50 per listed item (species) with a minimum expenditure of \$35 per insertion. In this way ABB will create awareness for the company and its offerings and also improve the effectiveness of its selling efforts.

## X. Production and Operations

ABB currently has a tissue-culture lab and a greenhouse in Athens, Tennessee. The lab has 576 square feet of working space, including a culture room of 120 square feet, and can accommodate five work stations. According to data from Agri Starts II, Inc., a tissue culture lab in Florida, one skilled technician can produce 20,000 plants per month, per work-station. To be more conservative, we cut this number in half, which means a monthly production rate of 10,000 plants by one lab technician or one plant per minute on an eight-hour day, five-day week schedule.

The tissue-culture lab will be the heart of the operation. The production process is somewhat different depending on the protocol, but generally speaking, tissue-culturing of bamboo can be roughly described in three stages.

**Stage 1:** Initiation of the tissue cultures

**Stage 2:** Rapid development of the cultures

### Stage 3: Preparation of the plantlets for greenhouse development and shipping

At Stage 1, "children" are made from the "parent" plant's tissue, whether from the seed or other parts. These "children" are placed on a solid medium and develop into a large mass of *callus*. This process takes an average of three months.

At Stage 2, the callus multiply and grow into tiny plants. This process takes an average of another three months.

At Stage 3, young plantlets are transferred to the greenhouse and grow there for two to three weeks in artificial soil until they are about four inches tall and ready to ship (this stage is called "hardening"). Exhibit 5 shows pictures of lab stage plants.

The total production time of six to seven months may seem long. But consider these two facts: First, once a callus is formed, it will keep growing and can be used to generate plant materials for as long as two years. Second, during the course of each stage, minimum care is needed and the technician can start working on the next round of cultures. Thus, only when you start from scratch does it really take six or more months before you can get any products to ship.

In other tissue-culture labs, there may be a fourth stage, at which these young "liners" are planted into the real soil and grow to a bigger size before shipping. This is a crucial stage because plants are taken from a safe, protective environment and placed in containers or the ground for further greenhouse or outside growth. ABB has had a 95 percent success rate in Stage 3, and the Stage 4 survival rate is 85 percent according to our field test results. This means when the nursery growers receive their order, about 85 out of 100 will grow up to healthy plants. This rate is significantly higher than the conventional method, which has at best a 65 percent success rate. As mentioned in the previous section, an extra 15 percent will be sent to the customer to cover possible loss.

Our products will be shipped one of two ways, either bare root or with artificial soil. Sophisticated nurseries which know how to handle plants just out of the tissue-culture lab can accept our plants bare root in boxes. There will be no soil in the box and the plants will be enclosed in a bag to keep them moist. The plants can survive for weeks in this type of environment. For less knowledgeable nurseries, we will ship the plants in standard plastic containers. These containers are flat, black plastic trays that come in an assortment of sizes. We plan to use 72 plant flats, a popular industry size, and artificial soil. By using artificial soil we should not have to worry about infestation problems and the plants should be easier to ship. Since these plants will be "hardened" by us before shipping, they should be much easier for nurseries to grow.

We plan to use the Athens, Tennessee facility as both a production and research lab for the first year. The decision is based on two considerations. First, we want to keep the start-up cost low, and second, the new technicians will need training under the close supervision of Susan Woods. These employees will sign a confidentiality statement protecting ABB's trade secrets.



According to the sales projection of 145,000 plants the first year, two technicians will be hired in the first year, starting from day one. In year two, ABB will set up a production lab near the research lab (see Exhibit 7 for a lab layout). We have tentatively chosen Etohwa, a small town 10 miles from the Athens lab. Dr. Woods contacted some business people there and was promised a free production site as long as ABB can provide employment opportunities to this dying town.

The qualifications for a technician are not very high—a high school graduate with some proper training can do the job. However, we do have a highly qualified person, Ms. Jun Ding, for the position of chief technician. Ms. Ding has more than 15 years experience of working as a hospital lab technician in China.

### **XI. Management Team and Key Advisors**

During its first year of operation, ABB will have the following management team (detailed resumes are shown in Appendix 4):

Simon X. Liao, President and CEO. Mr. Liao comes from the People's Republic of China. He originated the idea of growing bamboo in the United States. He discussed bamboo's potential with Dr. and Mrs. Woods and both of them were excited about the tremendous potential. Liao returned to China during the summer in 1988 and established extensive contacts with Chinese bamboo research institutes and bamboo growers and to get access to seed resources. A company was formed to grow bamboo but soon dissolved because they had not realized the insurmountable difficulties in bamboo reproduction. Once the Woods determined that tissue culture may be more successful and started their research, Liao decided to discontinue his Ph.D. program in psychology at State University of New York at Binghamton and instead decided to take MBA courses at the University of Georgia. His areas of concentration include marketing, production/operations, and small business management. Liao will assume responsibility for the general management of the company and supervision of the production operations to assure high quality products.

William Hornaday, CEO/Vice President of Marketing, Sales and Distribution. Mr. Hornaday's experience in the Navy as a supply officer and his eloquence and persuasive manner make him ABB's choice for vice president for marketing, sales and distribution. During the preparation of this business plan, he contacted dozens of bamboo nurseries and established relationships with each of them. He also initiated the prospective joint venture with Mr. Tornello.

Mrs. Susan Woods, Vice President of Research and Development. Mrs. Woods is ABB's vice president of research and development. Her research results have placed her as one of the leading bamboo researchers in the world. She has been fully devoted to this project, with her primary interest being in research. She developed three new bamboo protocols utilizing liquid suspension techniques.

Dr. John E. Woods, Consultant and Researcher. Dr. Woods has profound knowledge about plants in general and bamboo in particular. He also has extensive connections in both research circles and the nursery business. Due to his other activities, he will work part-time with ABB. He will assist Mrs. Woods with research and work on long-range projects such as the application of bamboo in other areas.

In the second or third year, Mr. Don Charest will join ABB as accounting and financial specialist. Mr. Charest has worked with several accounting firms and is now completing his Masters of Business Administration with a specialization in finance.

ABB has formed a group of ten professionals as its advisers (list not shown here). This group will be consulted on legal, business, accounting, operational, marketing, and related activities.

The board of directors will include Simon Liao, William Hornaday, Susan Woods, Dr. John Woods, Don Charest, and Dr. Charles Hofer. Dr. Hofer is a Professor of Strategy and Entrepreneurship at the University of Georgia, in Athens, and has extensive knowledge of corporate management and business strategy.

## **XII. Financial**

ABB is projecting sales of \$240,000 in year one, \$960,000 in year two, and \$1.74 million in year three. Corresponding profits for years one through three will be \$137,000, \$251,000, and \$621,000 respectively. These estimates of revenue are based partly on our market survey results while estimates for costs are based upon discussions with Dr. and Mrs. Woods and other nurseries and tissue-culture labs with whom we have had contact.

To fund this growth in sales, ABB is planning to issue \$500,000 of common stock in year one. ABB's preferred method of raising this \$500,000 is through "angels" (individual venture investors) for the following reasons:

- "Angels" typically assume less control over the company than do venture capitalists,
- The expectation on the return on investment for "angels" is typically less than for venture capitalists, and
- ABB will be in a better position to dictate terms, such as when we will buy the stock back and for how much, with "angels" than with venture capitalists.

For their \$500,000 investment in ABB, investors will receive 40 percent of the stock of the company. ABB intends to buy them out at the end of year three for \$1 million, or if they desire, they can continue as shareholders. ABB will use this capitalization of \$500,000 to purchase \$13,000 dollars of equipment and as working capital for year one.

With a capitalization of \$500,000, it is projected that ABB will be a financially strong company and will show a profit in its second year of operation. Even though we will lose money in year one, the minimum cash amount that we should experience is \$272,000. We feel that this "minimum" amount will provide coverage in the event revenue has been overestimated or underestimated. If sales are greater than anticipated, we will be able to hire additional technicians. If expenses are greater than expected, again we will have the financial resources to cover them.

### **Alternative financing**

In addition to "angels" as potential investors in ABB, we have three other options to raise adequate capitalization:

1. **Joint venture.** The first option is a joint venture with either Robert Tornello or Kurt Bluemel. This will be discussed further in the joint venture section, later in this business plan. A joint venture could be on a production or distribution basis.
2. **Initial public stock offering.** ABB's second option is an initial public offering (IPO) of \$3 million to \$4 million. The capital markets have been very favorable for bio-tech stocks in the past few years. With this climate for bio-tech stocks, ABB may be able to raise a larger amount of money without giving up 40 percent of the equity, as may be required with "angels."
3. **Venture capital funds specializing in Bio-Tech.** Our final capitalization option is a venture capital fund specializing in bio-tech companies. The disadvantage with this source is that venture capitalists would require a larger return on their investment than the other options. However, ABB would benefit from the venture capitalist expertise.

The above discussion was based upon the financial statements found in Exhibit 10 (included at the end).

## **XIII. Joint Venture Prospects**

### **Advantages**

There would be four major advantages if we were to form a joint venture with an experienced nursery operation:

- Grower Expertise
- Industry Contacts
- Existing Customer Base
- Decrease in capital needs

Having an established nursery as a partner would offer us all of the advantages of buying an established business without having to pay full price. We would benefit immensely from our partner's expertise in bamboo, his industry contacts, and his existing customer base. The joint venture agreement would be mutually beneficial and geared toward establishing a long-term relationship.

Two types of joint venture arrangements that we are considering are Production and Distribution.

The production arrangement would allow ABB to avoid construction costs by having our partner provide us with greenhouses and other production facilities. Our partner would benefit from the arrangement by purchasing our products at reduced prices.

The distribution arrangement would allow ABB to set monthly production quotas which our partner would be obligated to purchase from us. The number of plants per month would be written into the contract and agreed to by both parties. Our partner would have the exclusive distribution right to our products as long as he would be able to keep up with the agreed upon production schedule. If he failed to do so, then ABB would have the right to go to other distributors but still sell our partner our products at special reduced prices.

#### Interested nurseries

Currently there are two large wholesale growers who are interested in some form of joint venture project with our company. They are Kurt Bluemel of Kurt Bluemel Inc.—located in Maryland and the largest ornamental grass grower on the East Coast, and Robert Tornello of Tornello Landscape Corporation, located in Ruskin, Florida—just south of Tampa. These two companies were mentioned in the section concerning competition, but we have concluded that they would more likely be our customers rather than our competitors because of the age and size difference of our respective products. Both companies have annual sales estimated to be in excess of \$1 million and are leaders in the nursery industry. Of the two, our most extensive contact to date has been with Robert Tornello.

Mr. Tornello sells large bamboo plants to commercial customers including zoos, landscape developers and designers and regularly ships bamboo to Europe. He has 15 years of experience in the nursery industry and specializes in bamboo exclusively (see Exhibit 8 for pictures of his operation). He has long been interested in other applications of bamboo, but lacked the expertise needed to pursue an effort like tissue culture.

Mr. Tornello has extensive contacts in the nursery industry and lectures across the country about the uses and applications of bamboo. He regularly receives calls from landscape designers and architects for advice concerning the uses of bamboo. He also is a major presence in industry trade shows. He currently has a booth for the upcoming Tropical Plant International Exhibition in Fort Lauderdale. The show is currently sold out, so ABB cannot get a booth. However, Mr. Tornello is willing to set up a joint display that will show our products in conjunction with his.

Mr. Tornello is also interested in providing greenhouse space for ABB to use for production and has even expressed a willingness to erect a new tissue-culture lab for our use.

A joint venture with Mr. Tornello would give ABB access to his experience, industry knowledge, and contacts. A form of venture that we are considering is an exclusive distribution agreement with Mr. Tornello. We would use facilities at his location in Florida for plant production and he, in turn, would be under contract to buy a fixed number of plants from us each month. This would enable us to run our lab efficiently with a fixed production schedule. We would also have a joint marketing project to promote these plants across the country. This type of agreement will be beneficial to both parties—we would gain Mr. Tornello's experience and reputation and he would gain access to ABB's new technology. Negotiations with Mr. Tornello are continuing at this time and until an agreement is reached with either he or Mr. Bluemel, we plan to continue production at our Tennessee facilities.

#### **XIV. Legal Organization and Ownership**

American Bio-Tech Bamboo will be structured as a closely held C-Corporation registered in the state of Georgia by James P. Kelly, ABB's attorney.

The primary reasons for our designation as a C-Corporation are the limited liability of the owners, the ability to have an IPO, and the simpler process in forming a joint venture.

ABB initially has four owners: John E. Woods, Susan Woods, Simon X. Liao, and William Hornaday. Each person has an equal share of 25 percent ownership of the company. When "angels" or other forms of capital investment are found, each owner's share will be reduced accordingly.

See Exhibit 9 (included at the end of this plan) for the initial agreement between the owners.

#### **XV. Key Risks and Contingencies**

Before starting the business, ABB should anticipate possible risks and prepare for them. The following are potential problems ABB must be prepared for:

- ABB overestimates our market demand
- ABB experiences a shortfall in working capital
- ABB faces unexpectedly intense competition
- ABB underestimates demand and loses market share

**ABB overestimates market demand**

This is highly unlikely according to our questionnaire survey results and direct comments from wholesalers and end-users. A more realistic risk is that after the customers get plants from us they will use traditional methods to produce new plants of their own. Our best defenses against this are our plant and process patents. On the other hand, ABB plans to introduce only a few species a year rotating new and better plants into the market. By doing this, we can at least keep up the level of our sales volume.

**ABB experiences a shortfall of working capital**

In the nursery business, deferred payment is a common practice. Accounts receivable can be as old as one year—some growers buy plants in the beginning of the year and pay the invoices the spring of next year. High production cost and overhead can also cause shortages in cash. That is why the company wants to get a high initial investment (\$500,000) to start with. With a capitalization \$500,000, we have projected our cash on hand to remain above \$272,000.

**ABB faces unexpected intense competition**

Once a profitable business has been established, other businesses typically try to copy that business. The only barrier of entry into our business is the technology. We feel that the only way we would face intense competition would be if someone duplicates our technology. This technology has been derived over three years of intensive research, thus we feel it would take a potential competitor at least that long. In addition to this lead time, ABB also will have patent and trademark protection as already mentioned.

**ABB underestimates demand and loses market share**

Even if ABB does underestimate demand, our technology enables us to fulfill this demand via hiring more technicians. Again by capitalizing ABB with \$500,000 we will have adequate cash to hire these technicians and buy new equipment as market demand dictates.

**XVI. Diversification Opportunities and Conclusion**

At the end of year three, ABB anticipates being in a position to pursue expansion. Having established ABB in the U.S. ornamental bamboo market, ABB will expand into Europe and Asia. Based upon our projections at the end of year three, ABB will have cash on hand of \$690,000 to pursue these markets.

The first European market ABB plans to enter will be Belgium. There is an existing demand in Belgium but not an adequate supply. ABB has already identified an individual who would like to form a joint venture. ABB will use this base in Belgium to penetrate other European markets. ABB's entry into the Asian markets will begin in China. Mr. Simon Liao has extensive contacts in China that will assist ABB.

In addition to the ornamental market ABB has identified four other expansion areas—food, fuel, paper pulp, and reforestation. Our expansion into these areas will require additional financing. We feel ABB's success in the ornamental market will enable it to attract external financing from a public offering and/or venture capitalist and/or "angels."

The following is a description of the areas we will expand into in order of preference:

**Food.** According to data from U.S. International Trade Commission, \$180 million worth of bamboo shoots (in cans) were imported into the U.S. in 1990. Most of these imported shoots were purchased by more than 30,000 Chinese restaurants, other oriental food restaurants, and individual consumers.

**Paper.** Bamboo is the chief source of high-quality paper fiber in many Asian countries. It generates substantially more plant material per acre than pine trees due to rapid growth characteristics and its ability to quickly recover from annual cutting.

**Fuel.** Bamboo is a highly efficient, environmentally clean and renewable source of fuel. It has the potential to replace toxic high-sulphur bituminous coal as power plants strive to become more environmentally conscious.

**Reforestation.** Bamboo groves have the potential to counteract the accelerating depletion of the world's tropical rain forests. Environmental concerns, of course, are some of the most pressing issues in the late 20th century. (For more details, see Appendix 8).

As mentioned in the goals and strategy section, ABB plans to start by concentrating on the ornamental market. However, this market is not where the company's ultimate interest lies. In the past, Dr. Woods has been contacted by venture capitalists, individuals, and government agencies, both domestically and overseas.

One California group offered to make an investment of \$35 million but the deal did not consummate. USDA, Tennessee Valley Authority (TVA) and International Fund for Agricultural Research (IFAR) all financially support and assist the research and feasibility study done by the Woods. An Egyptian government agent has also shown interest in cooperating with ABB in using bamboo to control land erosion. A private company in Belize invited Dr. Woods to set up a bamboo plantation on their 20,000 acres of land.

However, despite the various opportunities it has had, none of these have been consummated. Thus, ABB reached the conclusion that it would not be likely to realize its dream unless:

- It started its own business and gained recognition and credibility in the industry;
- It examined ABB's potential through a business plan;
- It developed a strong management team.

- The first three to five years of operation in the ornamental market is only a beginning for ABB and a vehicle to carry us to even greater opportunities. Of course, the ornamental part in itself can be a very profitable business, but it is only the tip of the iceberg.

ABB and all its members share the firm belief that the company has a great product with tremendous potential and all are committed to seeing this potential become a reality.

Thank you for your consideration.  
The members of ABB.

### **XVII. Table of Appendices**

1. ABB's Questionnaire/Responses
2. Georgia Capital Network Application, M.I.T. Capital Network Application
3. Application to Reserve a Corporate Name in Georgia
4. Management Team Resumes
5. Application to Register BIOSTAR
6. Application to Register "Sleeping Princess" Trademark
7. Woods Research Article
8. Five Potentials of Bamboo
9. List of Plant Material Sources

*Note*—Because of space limitations these appendices are not included here but are listed to give the reader an idea of what supporting information ABB included in the plan.



**Exhibit 9**  
**Partnership Agreement Between ABB Founders**

**Initial Agreement for the Formation  
of Americana Bio Tech Bamboo**

This agreement is an initial document that the undersigned agree to concerning the formation of American Bio-Tech Bamboo Incorporated. It is understood that this document will be updated in a more legal fashion in the future when \$500,000 funding is obtained.

1. **AMERICAN BIO-TECH BAMBOO INC.** will be incorporated as a Corporation in the state that is most advantageous to the company. ABB will produce tissue-cultured bamboo species for sale in the United States and worldwide. The owners are planning to sell the company at the end of five years. The initial owners will be Dr. John E. Woods, Mrs. Susan Woods, Mr. Simon X. Liao, Mr. William A. Hornaday.

All four original owners will have equal shares of the company. Each person will have 25 percent to start, each person's share will be reduced equally to attract venture capital.

2. All four initial owners will have an equal starting salary of \$48,000 per year. Salaries will increase annually at a rate of 6 percent per year. The owners' primary return will come in the form of capital gains when the company is sold. Forty hours per week is considered full time. Salary will be pro-rated for part-time work.
3. Dr. Woods will continue to pursue financing for projects on which he is currently working. This agreement does not prevent him from working in this area.
4. The company may protect its profit margins by selling to exclusive distributors.
5. The owners will share the costs of incorporation according to their share of ownership.
6. Patents and trademarks will be the property of the company.
7. Simon Liao will be president and CEO. He will be in charge of production laboratory and operations. Bill Hornaday will be vice president of sales, marketing and distribution. Susan Woods will be vice president of research and development. John Woods will work on a part-time basis assisting Susan Woods and working on long-range planning.
8. All of the owners will be board members. Other individuals may be asked to join the board in the future. Signed December 30, 1991

Dr. John E. Woods (Signature)  
Mrs. Susan Woods (Signature)  
Mr. Simon X. Liao (Signature)  
Mr. William A. Hornaday (Signature)

American Bio-Tech Bamboo	Exhibit 10A Financial Projection												Total Yr
	Operating Statement, Year One (Dollars)												
	06/30/92	07/31/92	08/31/92	09/10/92	10/31/92	11/30/92	12/31/92	01/31/93	02/28/93	03/31/93	04/30/93	05/31/93	
Net Revenues	0	0	0	0	0	0	20,000	30,000	40,000	50,000	50,000	50,000	240,000
Cost of Sales Materials (14.5% of Revenue)	0	0	0	0	0	0	2,900	4,350	5,800	7,250	7,250	7,250	34,800
Pre-Labor Cost of Sales	0	0	0	0	0	0	2,900	4,350	5,800	7,250	7,250	7,250	34,800
Gross Profit (No Labor)	0	0	0	0	0	0	17,100	25,650	34,200	42,750	42,750	42,750	205,200
Operating Expenses													
Salary and Wages	14,000	14,000	14,000	14,000	14,000	14,000	14,000	14,000	14,000	14,000	14,000	14,000	168,000
Office Salaries	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	19,200
Technicians Salaries	0	0	0	0	0	0	0	0	0	0	0	0	0
G&A Salaries	3,120	3,120	3,120	3,120	3,120	3,120	3,120	3,120	3,120	3,120	3,120	3,120	37,440
Payroll Taxes & Benefits	700	700	700	700	700	700	700	700	700	700	700	700	8,400
Occupancy Expense	300	300	300	300	300	300	300	300	300	300	300	300	3,600
Insurance	800	800	800	800	800	800	800	800	800	800	800	800	9,600
Maintenance													
Utilities	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Operational Expenses	500	500	500	500	500	500	500	500	500	500	500	500	6,000
Advertising/Promotion													
Trade Shows	0	0	0	0	0	0	0	0	0	0	0	0	0
Depreciation	217	217	217	217	217	217	217	217	217	217	217	217	2,604
Laboratory	42	42	42	42	42	42	42	42	42	42	42	42	504
Lab Equipment	100	100	100	100	100	100	100	100	100	100	100	100	1,200
Office Equipment	80	80	80	80	80	80	80	80	80	80	80	80	960
Dues/Subscriptions	500	500	500	500	500	500	500	500	500	500	500	500	6,000
Office Expenses	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	21,000
Postage & Shipping	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	3,100
Professional Fees	330	330	330	330	330	330	330	330	330	330	330	330	3,960
Stationery/Catalog	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000
Telephone	200	200	200	200	200	200	200	200	200	200	200	200	2,400
Lab Supplies													
Samples													
Total Operating Expenses	38,489	38,489	38,489	38,489	38,489	38,489	38,489	38,489	38,489	38,489	38,489	38,489	461,688
Operating Profit (Loss)	(38,489)	(38,489)	(38,489)	(38,489)	(38,489)	(38,489)	(38,489)	(38,489)	(38,489)	(38,489)	(38,489)	(38,489)	(461,688)
Less Interest Expenses	0	0	0	0	0	0	0	0	0	0	0	0	0
Pre-tax Income (Loss)	(38,489)	(38,489)	(38,489)	(38,489)	(38,489)	(38,489)	(38,489)	(38,489)	(38,489)	(38,489)	(38,489)	(38,489)	(461,688)
Tax Provisions													
Federal	0	0	0	0	0	0	0	0	0	0	0	0	0
State	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Income (Loss)	(38,489)	(38,489)	(38,489)	(38,489)	(38,489)	(38,489)	(38,489)	(38,489)	(38,489)	(38,489)	(38,489)	(38,489)	(461,688)

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Exhibit 10C Financial Projection													
American Bio-Tech Bamboo						Cash Flow Projection, Year One (Dollars)						Total Yr.	
	6/30/92	07/31/92	08/31/92	09/10/92	10/31/92	11/30/92	12/31/92	01/31/93	02/28/93	03/31/93	04/30/93	05/31/93	
Cash Receipts (Inflows) Receivables Collected	0	0	0	0	0	0	6,000	15,000	28,000	37,500	44,000	47,500	178,000
Total Operating Receipts	0	0	0	0	0	0	6,000	15,000	28,000	37,500	44,000	47,500	178,000
Cash Disbursements	14,004	24,450	8,610	8,610	8,610	8,610	9,770	12,090	13,540	14,990	15,860	15,860	155,004
Monthly Expenses Salaries & Wages	18,720	18,720	18,720	18,720	18,720	18,720	18,720	18,720	18,720	18,720	18,720	18,720	224,640
Total Oper. Disbursements	32,724	43,170	27,330	27,330	27,330	27,330	28,490	30,810	32,260	33,710	34,580	34,580	379,644
Operating Cash (Deficit)	(32,724)	(43,170)	(27,330)	(27,330)	(27,330)	(27,330)	(22,490)	(15,810)	(4,260)	3,790	9,420	12,920	(201,644)
Less Federal Tax	0	0	0	0	0	0	0	0	0	0	0	0	0
Less State Tax	0	0	0	0	0	0	0	0	0	0	0	0	0
Add Beginning Balance	0	(32,724)	(75,894)	(103,224)	(130,554)	(157,884)	(185,214)	(207,704)	(223,514)	(227,774)	(223,984)	(214,564)	(214,564)
Ending Cash Balance	(32,724)	(75,894)	(103,224)	(130,554)	(157,884)	(185,214)	(207,704)	(223,514)	(227,774)	(223,984)	(214,564)	(201,644)	(201,644)
American Bio-Tech Bamboo Projected Break Even—Year One (Dollars)													
Fixed Expenses	38,488	27,588	27,588	27,588	27,588	27,588	30,488	31,918	33,388	34,838	34,838	34,838	376,756
Contribution Margin	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100%	100%	100%	100%	100%	100%	100%
Period Break-even	38,488	27,588	27,588	27,588	27,588	27,588	30,488	31,918	33,388	34,838	34,838	34,838	376,756
Projected Revenue	0	0	0	0	0	0	20,000	30,000	40,000	50,000	50,000	50,000	240,000
Amount Over (Under)	(38,488)	(27,588)	(27,588)	(27,588)	(27,588)	(27,588)	(10,488)	(1,938)	6,612	15,162	15,162	15,162	(136,756)
Percentage Over (Under)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(52.5%)	(6.2%)	16.5%	30.3%	30.3%	30.3%	(57.0%)
Break-even As % of Rev.	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	152.4%	106.5%	83.5%	69.7%	69.7%	69.7%	157.0%

**Exhibit 10D**  
**Financial Projection**  
**American Bio-Tech Bamboo**  
**Income Statement Year Two and Three**

	<u>Year 2</u>	<u>Year 3</u>
Net Revenue	960,000	1,740,000
Cost of Sales (Materials (14.5% of Revenues))	<u>139,200</u>	<u>252,300</u>
<b>Total Cost of Sales</b>	139,200	252,300
 Gross Profit (Not Including Labor)	 820,800	 1,487,700
 Operating Expenses		
Salaries & Wages		
Officers Salaries	178,080	189,120
Technician Salaries	38,160	40,448
G & A Salaries	8,000	16,000
Payroll Taxes & Benefits	44,848	49,114
Occupancy Expenses		
Insurance	12,000	18,000
Repairs & Maintenance	4,800	6,000
Utilities	14,400	21,600
Operational Expenses		
Advertising & Promotion	14,400	19,200
Trade Shows	9,600	12,000
Depreciation		
Laboratory	1,667	3,333
Lab Equipment	4,100	6,600
Office Equipment	1,100	1,800
Dues & Subscription	1,200	1,200
Office Expenses	1,200	1,440
Postage & Shipping	9,000	12,000
Professional Fees	12,000	12,000
Stationary/Catalogs	5,400	6,600
Telephone	6,600	7,200
Lab Supplies	42,000	48,000
Samples	<u>3,600</u>	<u>4,200</u>
 <b>Total Operating Expenses</b>	 412,155	 475,855
Operating Profit (Loss)	408,645	1,011,845
Less Interest Expense	0	0
 Income (Loss) Before Tax	 408,645	 1,011,845
Provision for Income Tax		
Federal Tax	129,214	319,945
State Tax	<u>28,605</u>	<u>70,829</u>
<b>Net Income (Loss)</b>	<b>250,827</b>	<b>621,071</b>

**Exhibit 10D**  
**Financial Projection (continues)**  
**American Bio-Tech Bamboo**  
**Balance Sheet Year Two & Three**

	<u>Year 2</u>	<u>Year 3</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash Equivalents	(60,788)	689,241
Accounts Receivable (Net)	<u>300,000</u>	<u>582,000</u>
<b>Total Current Assets</b>	<u>239,212</u>	<u>1,271,241</u>
Property & Equipment		
Laboratory	50,000	50,000
Laboratory Equipment	28,000	38,000
Office Equipment	5,500	9,000
Less Accumulated Depreciation		
Laboratory	1,667	5,000
Laboratory Equipment	6,700	13,300
Office Equipment	<u>1,600</u>	<u>3,400</u>
Property & Equipment (Net)		
Laboratory	48,333	45,000
Laboratory Equipment	21,300	24,700
Office Equipment	<u>3,900</u>	<u>5,600</u>
<b>Total Assets</b>	312,745	1,346,541
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts Payable	40,860	62,811
Accrued Federal Tax	129,214	449,159
Accrued State Tax	<u>28,605</u>	<u>99,434</u>
<b>Total Current Liabilities</b>	198,679	611,404
<b>Stockholders Equity</b>		
Invested Capital	0	0
Retained Earnings (Loss)	<u>114,067</u>	<u>735,137</u>
<b>Total Stockholders Equity</b>	<u>114,067</u>	<u>745,137</u>
<b>Total Liabilities &amp; Equity</b>	312,745	1,346,541

**Exhibit 10E**  
**Financial Projection (continues)**  
**American Bio-Tech Bamboo**  
**Cashflow Year Two and Three**

	<u>Year 2</u>	<u>Year 3</u>
Total Operating Cash Receipts	801,000	1,458,289
Cash Disbursements		
Monthly Expenses Paid	- 331,088	413,289
Salaries & Wages	<u>269,088</u>	<u>294,682</u>
Total Cash Disbursements	<u>600,176</u>	<u>707,971</u>
Operating Cash Surplus	<u>200,824</u>	<u>750,029</u>
Less Federal Income Tax	0	0
Less State Income Tax	0	0
Add Beginning Cash Balance	<u>(261,612)</u>	<u>(60,788)</u>
Cash Balance Before Funding	(60,788)	689,241

## B. Market Analysis

The following activities are designed to help you take preliminary steps necessary to write a business plan. You will not find these activities very easy to perform. Nor will you perfectly master the process of writing a business plan after performing them. The purpose of these activities is to acquaint the students with the basic steps of the business plan writing process.

Choose a business you want to be in. Consult the following sources to gather information about your markets and show the results of your review on a piece of paper. Add your own sources to the list.

- Local Library
- Trade Associations
- Chamber of Commerce
- Potential Customers
- Future Suppliers
- Competitors
- Local SBA (Small Business Association)
- Local SBDC (Small Business Development Centers)



### C. Advertising

Now that you have determined what it is that you are marketing, who are the potential customers that will buy your product/service, you must decide on the best way to advertise your product. This activity will help you understand what you should communicate to your prospective customers.

Contact the local newspapers, radio and television stations, printers of direct mail, etc. to obtain information about their services and the results you should expect from your advertising campaign.

Complete the following table:

<b>Form of Advertising</b>	<b>Audience</b>	<b>Size of Use (number of ads)</b>	<b>Frequency</b>	<b>Estimated Cost Per Advertising Form</b>

To compute the Estimated Cost for each Advertising Form, multiply the size of use (number of ads by the frequency (i.e., how many times will you run the ad in a given period), and then multiply the result by the cost of a single ad.

### D. Equipment and Furnishings

In this activity you will establish what equipment and furnishings you will need to open your business. Make sure you list all the pieces of equipment you need, including office equipment (e.g., telephone, fax machine, computer, printer, price markers, copying machine, etc.) and equipment you need for running your business. If your business will be a home-based business, include the items you will use to run the business. Include all the information in the following table:

Equipment	Rent	Buy	Cost

**E. Staffing**

Complete the following table to describe how you will staff your business. Include the owner positions, as well as any employees you plan to hire. On the column entitled *Pay*, show the monthly salaries, hourly wages, and number of hours worked per day. Show the monthly expenses on the last column.

<b>Position</b>	<b>Job Description</b>	<b>Pay</b>	<b>Monthly Expense</b>

## F. Additional Financing

A large number of small businesses fail each year. One of the reasons is being underfinanced because of poor planning. In an effort to avoid this critical error, you should review your financial situation by responding to the following questions:

1. How much money do you have?
2. How much money will you need to start your business?
3. How much money will you need to stay in business?

In order to correctly respond to the first question, complete Chart 1—Personal Financial Statement. This chart is an example of personal balance sheet. This balance sheet represents a "snapshot in time." In other words, this statement reflects your financial situation as of the stated date.

Chart 2—Start-up Cost Estimates will help you answer the second question—How much money will you need to start your business? This chart a model for a retail business. Make the adequate changes if you plan to open a manufacturing or service business. Make sure you include all the items you need to correctly compute your start-up costs.

In order to answer the third question—How much money will you need to stay in business?—you need to calculate immediate costs and future costs. From the moment the door to your new business opens, there will likely be at least some monies coming in. However, this income should *not* be combined with your operating expense projections. Be aware that you will need enough money, assuming zero initial income, to cover costs for at least the first three months of operation. Chart 3 will help you project your operating expenses on a monthly basis. Include all other expenses you know will incur.

Multiply the total of Chart 3 by three to compute the amount of cash you will need to cover operating expenses for three months. You should deposit this amount in a savings account before opening your business and use it only for those purposes listed in opening your business. You should use it only for those purposes listed in the above chart because this money will help you stay in business during the crucial early stages.

By adding the Total Start-up Costs from Chart 2 to the Total Monthly Expenses for three months (i.e., three times the Total Monthly Expenses on Chart 3), you can learn what the estimated costs will be to start-up and operate your business for three months. Let's call this result Total Initial Expenses. Next, subtract Total Initial Expenses from the Cash Available on Chart 1 to determine the amount of additional financing you may need, if any.

**CHART 1**  
**PERSONAL FINANCIAL STATEMENT**

As of \_\_\_\_\_, 19\_\_\_\_

<b>ASSETS</b>	<b>LIABILITIES</b>
CASH ON HAND	ACCOUNTS PAYABLE
SAVINGS ACCOUNTS	NOTES PAYABLE
STOCKS, BONDS, OTHER SECURITIES	CONTRACTS PAYABLE
REAL ESTATE	TAXES
LIFE INSURANCE (cash value)	REAL ESTATE LOANS
AUTOMOBILE, OTHER VEHICLES	OTHER LIABILITIES
OTHER LIQUID ASSETS	
ACCOUNTS/NOTES RECEIVABLE	
TOTAL ASSETS	TOTAL LIABILITIES
	NET WORTH (Assets minus Liabilities)

**CHART 2**  
**START-UP COST ESTIMATES**

DECORATING, REMODELING	_____
FIXTURES, EQUIPMENT	_____
INSTALLING FIXTURES, EQUIPMENT	_____
SERVICES, SUPPLIES	_____
BEGINNING INVENTORY COST	_____
LEGAL, PROFESSIONAL FEES	_____
LICENSES, PERMITS	_____
TELEPHONE UTILITY DEPOSITS	_____
INSURANCE	_____
SIGNS	_____
ADVERTISING FOR OPENING	_____
UNANTICIPATED EXPENSES	_____
<b>TOTAL START-UP COSTS</b>	_____

**CHART 3**  
**MONTHLY EXPENSES**

Your living costs	_____
Employee wages	_____
Rent	_____
Advertising	_____
Supplies	_____
Utilities	_____
Insurance	_____
Taxes	_____
Maintenance	_____
Delivery/Transportation	_____
Miscellaneous	_____
<b>TOTAL MONTHLY EXPENSES</b>	_____

## G. Income Projections for the First Year

The purpose of this activity is to estimate your operating expenses for the first year after start-up. You will complete Chart 4 for this estimation.

**Sales Projections.** The first step in determining your annual expenses is to estimate your sales volume month by month. Be sure to consider seasonal trends that may affect your business when estimating the sales volume. Information on seasonal sales patterns and typical operating ratios can be secured from your trade associations.

Use financial ratios in your industry to check your projections. Information on industrial financial ratios is provided by Standard & Poor's, Moody's, and other almanacs which provide financial ratios by industry. (Refer to the sources of help at the beginning of these publications for thorough explanations on how you should understand and interpret these ratios).

**Cost of Goods Sold.** To determine the cost of goods that will be sold to produce your expected sales, refer to the above mentioned sources to learn what is the *gross margin ratio* in your industry. The gross margin ratio is the gross margin (sales revenue minus costs of goods sold) expressed as a percentage of the sales. Knowing the sales projections, after determining the gross margin ratio, you can estimate the projected cost of goods sold for the first year on a monthly basis.

As you prepare Chart 4, understand that you are looking at the percent of total sales that each item represents. Fill out each month's column in dollars, total them in the far right column. Adjust the gross margin ration according to seasonal trend you expect to see throughout the year.

**Operating Expenses.** You may apply the approach used for projecting the cost of goods sold to compute all operating expenses. Include other expenses that might apply.



**CHART 4  
MONTHLY PROJECTED INCOME STATEMENT FOR THE FIRST YEAR**

	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Total
Sales Revenue													
Costs of Goods Sold													
<b>Gross Margin</b>													
Operating Expenses:													
Advertising													
Bank Charges													
Owner's Salary													
Gross Wages Paid													
Insurance													
Interest													
Office Supplies													
Payroll Taxes													
Rent													
Repairs													
Supplies													
Utilities													
<b>Total Expenses</b>													
Operating Profit (loss)													

### G. Cashflow Projection

Complete the following chart to project your cashflow over the next three years. Refer to the Financial Analysis Pace Unit for more information on how to develop a Cashflow Statement. Carefully state all your assumptions at the bottom of this statement to justify your computations (e.g., state the percentage at which you expect your cash receipts, monthly expenses paid, debt service, salaries and wages, taxes, and receivables collected to grow).

Subtract Cash Disbursements from Total Operating Cash Receipts to compute Operating Cash Surplus (Deficit). Add back the Beginning Cash Balance to compute the Cash Balance Before Funding.

	Year 1	Year 2	Year 3
Total Cash Receipts from Operations			
Less: Cash Disbursements			
Expenses Paid			
Salaries & Wages			
Debt Service Paid			
Taxes Paid			
Total Cash Disbursements			
Operating Cash Surplus (Deficit)			
Add: Beginning Cash Balance			
<b>Cash Balance Before Financing</b>			

## GROUP ACTIVITIES

### A.

Work in groups of four to six. Appoint a recorder for each group and have them number a separate piece of paper from 1 to 25. As a group, discuss each selection and place a check next to the number for every statement that describes a contribution that the Business Plan makes to the entrepreneur.

1. Provides records for federal income tax returns
2. Helps establish a credit rating for the business
3. Leads to a sound business structure
4. Helps the buyer select merchandise
5. Provides arguments for buying a franchise
6. Clarifies financial needs
7. Serves as a communication tool
8. Helps set up employee interviews for employment
9. Identifies a management pathway
10. Produces a marketing plan
11. How will you promote sales?
12. What type of business opportunity is it?
13. Did you assess your competition?
14. What are the features of the location?
15. Who are your customers and suppliers?
16. What is the break-even point?
17. What equipment is needed?
18. How will you control finances? Keep records?
19. How many employees will you need?
20. What will it cost to open your business and sustain it for 18 months?
21. Who will manage the business?
22. What are the factors you considered in building requirements?
23. What outside advisors will you need?
24. What will be your role in the business?

### B.

Continue working in teams. Review the sample business plan provided in this module with the following questions in mind:

1. Are the main sections of a business plan well represented? Identify where each section is located within the business plan.
2. Do you understand how the financial statements (i.e., balance sheet, income statement, cashflow statement) are developed? Demonstrate this knowledge by explaining how the Projected Income Statement was developed.

### C.

Continue working in teams. Within each team, the group members should offer ideas of business opportunities they would pursue in order to start a business (e.g., one group member might be a good computer person, for which reason he/she would like to start a computer repair business; another team member might be interested in crafting arts objects, etc.). Each team will then select the most appropriate business idea and develop a summarized business plan based on that idea. The summarized business plan should "sketch" the main sections of the business plan and include specific information tailored to the business opportunity. Teams should consult the local library to gather industry and market information to be included in the marketing section of the business plan.

Finally, the teams should convene and exchange their ideas and summarized business plans.

## CASE STUDY

Dan Schoolkraft's family has owned Schoolkraft Lumber Company for more than 20 years. As a little boy, Dan remembers watching his father's employees working in lumberyards located throughout the state of West Virginia. Dan learned how to distinguish among the various kinds of lumber since he was 5 years old. As he grew older, Dan started learning how lumber is cut to manufacture plywood, roofing materials, doors, window frames, wooden floors, wood panels, and various other wood materials.

Dan went to high school and majored in construction. During summer breaks, he worked for a real estate developer in a nearby town. After graduation, Dan worked for a construction company for two years. He also continued to work for the real estate developer on a contractual basis to finish interiors of newly built residential properties.

Dan's parents noticed his talents, hard work, and determination to succeed in business.

They would like to have Dan work as a sales manager for Schoolkraft Lumber Company. Many of the company's clients have known Dan since he was a little boy and are convinced he would make an excellent sales manager.

However, Dan has other plans. He would like to start his own construction business. He asked his parents to finance his business start-up. He would add his savings to the capital pool to cover start-up costs. In addition, he believes his excellent credit history could help him obtain a loan from one of the local banks.

Dan also plans to attend construction classes at the local vocational school. Later, he would attend evening business classes at the community college. "I know enough about construction and will be able to keep up with the work if I hire two more workers. But this is not enough. I need to understand accounting and marketing," said Dan to his parents.

## DISCUSSION QUESTIONS

1. What suggestions would you offer Dan Schoolkraft at this time?
2. Should Dan start his own construction business now or should get some training first?
3. If Dan decides to start his business now, what advice would you give him regarding a business plan?
4. What recommendations do you have for Dan regarding the financing of his construction company?

**ASSESSMENT**

Read the following questions to check your knowledge of the topics presented in this unit. When you feel prepared, ask your instructor to assess your competency on them.

1. In your own words, define what a business plan is.
2. List and explain what preliminary step the entrepreneur should take prior to writing a business plan.
3. Outline the main sections of a business plan and briefly explain what each section covers.
4. Explain what an entrepreneur should do to present a business plan successfully.

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## PACE

Unit 1.	Your Potential as An Entrepreneur
Unit 2.	The Nature of the Small Business
Unit 3.	Business Opportunities
Unit 4.	Global Markets
⇒ Unit 5.	The Business Plan
Unit 6.	Help for the Entrepreneur
Unit 7.	Types of Ownership
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Unit 10.	Pricing Strategy
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Unit 12.	Legal Issues
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Unit 17.	Record Keeping
Unit 18.	Financial Analysis
Unit 19.	Customer Credit
Unit 20.	Risk Management
Unit 21.	Operations
	Resource Guide
	Instructor's Guide

Units on the above entrepreneurship topics are available at the following levels:

- \* Level 1 helps you understand the creation and operation of a business
- \* Level 2 prepares you to plan for a business in your future
- \* Level 3 guides you in starting and managing your own business