CHAPTER 4
Entrepreneurship

Section 4.1
What Is Entrepreneurship?

Section 4.2
Being a Business Owner

Exploring the Photo
WORK FOR YOURSELF
Running your own business takes time and energy. What attributes might be useful for an entrepreneur?
Chapter Objectives

After completing this chapter, you will be able to:

- **Define** entrepreneur and name the traits that most successful entrepreneurs share.
- **Summarize** the advantages and disadvantages of entrepreneurship.
- **Identify** the four main ways to become a business owner and explain the advantages and disadvantages of each.
- **Identify** the different forms of legal business ownership.
- **Explain** how to prepare to finance a new business.
- **Identify** factors that can affect business success.

Writing Activity

Entrepreneurship is an exciting and challenging undertaking—but it is not for everyone. How well does entrepreneurship fit your values, interests, and abilities? In a one-page journal entry, list the skills and personality traits you think an entrepreneur should have. Add to this list as you read the chapter.

**Get Motivated!** Think of a business you would like to open. Research the skills and experience you would need. Create a chart listing those skills and types of experiences. Next to each, indicate whether it is a skill or type of experience you already have or one you need.
Section 4.1

What Is Entrepreneurship?

Reading Guide

Before You Read
Preview Look at the photo in this section and read its caption. Write one or two sentences predicting what the section will be about.

Read to Learn
• What entrepreneur means and the traits that most successful entrepreneurs share
• What the advantages and disadvantages of entrepreneurship are

Main Idea
Gaining knowledge about entrepreneurship and its advantages and disadvantages will help you decide if this is a good career option for you.

Key Concept
• What is an Entrepreneur?

Key Term
entrepreneur

Academic Vocabulary
You will find these words in your reading and on your tests. Use the academic vocabulary glossary to look up their definitions if necessary.
e enterprise
t trait

Graphic Organizer
As you read, list the advantages and disadvantages of entrepreneurship. Use a two-column chart like the one shown to help organize your information.

<table>
<thead>
<tr>
<th>ENTREPRENEURSHIP</th>
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<tbody>
<tr>
<td><strong>Advantages</strong></td>
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<td><strong>Disadvantages</strong></td>
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Academic Standards

English Language Arts
• Apply strategies to interpret and evaluate texts. (NCTE 3)
• Use different writing process elements to communicate effectively. (NCTE 5)
What Is an Entrepreneur?

Think of the businesses you know. You may have a favorite ice cream shop, video store, or music store. Who makes the shoes you wear and the backpack you use to carry your books? Have you ever thought about who started those businesses?

Chances are that each of those businesses was started as a small business with a handful of employees, or maybe just one or two. Small businesses, usually those with fewer than 500 employees, represent more than 99 percent of American businesses. They employ more than 50 percent of the nonmilitary workforce. A person who organizes and then runs a business is called an entrepreneur.

An entrepreneur’s life is challenging. Planning a new business enterprise and then working to make it succeed is not easy. Entrepreneurs must make good decisions and find inventive solutions to their problems. The risks are high, but if the business succeeds the rewards can be great.

Does this challenge appeal to you? Are you willing to take on the risks of starting a new business? Then maybe your career path leads to entrepreneurship.

Advantages of Entrepreneurship

If you think entrepreneurship would demand a great deal from you, you are right. Why take on the challenge? What are the advantages?

• You are in charge. Entrepreneurs decide when and how hard to work and how their businesses will operate.
• There is great job satisfaction.
• Entrepreneurship can lead to a good income.

Everyday ETHICS

COMPETING FAIRLY

Is it fair to compete with a former employer?

GOING OUT ON YOUR OWN You have been the assistant manager of a coffee house for the past five years and have made friends with many of the customers. You are thinking about opening a coffee house of your own. There is an ideal space available in a shopping center around the corner from your current place of work, and you think many of the customers that you have befriended would follow you there.

What Would You Do? Is it fair to open up a shop in direct competition with your current employer? Why or why not?

DISCUSS IT Business owners must deal with competition, but they might not think it is fair for a former employee to compete with them. Do you think it is fair? How can you open your own business but stay on good terms with your past employer? Share your response with the class.
Disadvantages of Entrepreneurship

While entrepreneurship can be exciting and rewarding, there are also potential drawbacks:
- There is financial risk. You can lose your investment and sometimes more.
- Entrepreneurs often work long hours.
- Competition can be difficult to overcome.
- There are no guarantees of success. Almost half of new businesses fail within their first four years.

Traits of Entrepreneurs

Most successful entrepreneurs have the following personality traits. Do you share these traits?

Motivation

Entrepreneurs have the trait of self-motivation. They know what they want and believe in their ability to achieve it. They stay motivated by setting short- and long-term goals. Then they plan how to achieve those goals.

Sight and Foresight

Entrepreneurs are perceptive. They see opportunities where others do not. They look at problems and see opportunities.

Take Thuy Nguyen, for example. When he was 17, Thuy noticed that large companies used logos to promote their products, but small companies did not. He thought logos would help small companies
too. So he started a business creating logos for small companies. Eventually, his business succeeded. They felt proud, not only because he had succeeded, but because he had helped his clients too.

Seeing opportunities is part of the process of starting a new business. Once an entrepreneur sees a need, he or she must research it, evaluate the risks and rewards, and decide whether to accept the challenge and start a business.

As a college student, Karin thought she could make extra money by selling digital podcasts of class lectures to other students. She researched the idea by talking with other people who had started campus businesses and with students who might use the service. They thought it was a great idea, so she decided to go for it. She took out a loan to buy equipment. Then she began recording class lectures and selling the podcasts. Before she knew it, she had enough money to pay her living expenses. Her research did not end when the business started, though. Like all successful entrepreneurs, she continued to follow business trends and talk to her customers to evaluate their needs.

**Decision Making**

Entrepreneurs are decisive. They make business decisions every day, and the decisions must be good ones. Refer back to Section 2.1 in Chapter 2 of this book for a review of the decision-making process.

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**Section 4.1 After You Read**

**Review Key Concepts**

1. Name one trait common to most entrepreneurs. Explain why you think that trait helps people begin and run successful businesses.
2. Choose one disadvantage of entrepreneurship. Explain how you might overcome that disadvantage if you ran your own business.
3. Does entrepreneurship appeal to you? Explain why or why not.

**Practice Academic Skills**

**English Language Arts**

4. Identify your talents, skills, and abilities. How would they help you deal with the challenges of entrepreneurship? How do they compare with the traits of entrepreneurs listed in this section? Write your answers in a one-page response.
5. Review the challenges involved in one way to enter business. Which challenges do you think you are particularly capable of handling? Which challenges would be more difficult for you to handle? Why? Write your answers in a one-page response.

Check your answers at this book’s OLC through [glencoe.com](http://glencoe.com).
Section 4.2

Being a Business Owner

Reading Guide

Before You Read
Preview Choose a Key Concept that is new to you and write it down. When you find it in the text, write one or two sentences explaining the concept.

Read to Learn
• The four main ways to become a business owner and the advantages and disadvantages of each
• The different forms of legal business ownership
• How to prepare to finance a new business
• Factors that can affect business success

Main Idea
Knowing the factors that affect a business's success will help you to launch a successful business.

Key Concepts
• Going into Business
• Owning a Business
• Operating Your Business

Key Terms
- start-up costs
- lease
- goodwill
- market outlook
- franchise
- sole proprietorship
- partnership
- corporation
- operating expenses
- income statement
- revenue
- gross profit
- net profit

Academic Vocabulary
You will find this word in your reading and on your tests. Use the academic vocabulary glossary to look up its definition if necessary.
- proprietor

Graphic Organizer
As you read, list the four ways to go into business and their advantages and disadvantages. Use a chart like the one shown to organize your information.

<table>
<thead>
<tr>
<th>Ways to Go Into Business</th>
<th>Advantages</th>
<th>Disadvantages</th>
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Academic Standards

Mathematics
• Represent and analyze mathematical situations and structures using algebraic symbols
• Apply appropriate techniques, tools, and formulas to determine measurements

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Going into Business

There are four main ways to go into business: start a new business, buy an existing business, buy a franchise, or join a family business.

Starting a New Business

Starting a new business is a dream many people share. It is a chance to work hard and put your business ideas to the test.

Rewards

Building a business from scratch is hard work, but it has many rewards. For example, you do not inherit a previous owner’s mistakes or poor reputation. You can develop your own reputation and can build your business your way, using your experiences and the information you have gained from studying other businesses. You also get personal satisfaction from knowing you built the business.

Challenges

No matter how you go into business, you will face challenges. If you start a new business, you will face a few additional challenges:
(1) Starting a new business requires more time and effort than buying an established business. (2) Start-up costs are often high. Start-up costs are the expenses involved in going into business. Examples include renting or buying space; and buying equipment, office supplies, and insurance. (3) To borrow money, you will have to convince lenders that your business idea is sound. (4) It is risky. There are no guarantees that your business will succeed.

Buying an Existing Business

If you do not want to start a new business, you might buy an existing one. A successful business may be for sale because the owners are retiring or starting a new business. An unsuccessful business might be for sale for many reasons. One reason might be that the business is losing money. Before buying, determine whether the problems of the business can be fixed, and at what cost.

Choosing a Business

Your interests and hobbies can help you choose an entrepreneurial pursuit. What small businesses might be related to this young man’s interest in music?
Advantages
Buying an existing business can put you several steps ahead. You can save on start-up costs by taking advantage of the previous owner’s business agreements, such as a lease signed when prices were lower. A lease is a contract to use something for a specified period of time. You may be able to purchase the existing office furniture or equipment.

If the business was successful, you can build on that success. The goodwill, or loyalty, of existing customers is one of a business’s most valuable assets. You also may benefit from an existing positive reputation and a trained staff.

Disadvantages
An existing business may come with existing problems:
1. The location may be poor.
2. The competition may be taking business away.
3. The market outlook, or potential for future sales, may be poor.
4. The building or equipment may need expensive repairs or replacement.
5. The business may have a poor reputation.

Buying a Franchise
One way to enter into an existing business that offers specific advantages is the franchise. A franchise is the legal right to sell a company’s goods and services in a particular area. Many restaurants and real estate offices offer franchises.
When you buy a franchise, you actually buy the right to sell another company’s products. In addition to paying for the franchise, you agree to pay a percentage of your profits to the parent company.

**Advantages**

A franchise may be a wise choice for people with limited business experience. Here are some other benefits:
1. a recognized product name,
2. established procedures and management systems,
3. a business reputation and customer goodwill,
4. training and support services,
5. advertising, and
6. financing.

**Disadvantages**

A franchise is not the right choice for everyone. Because you pay a portion of your profits to the parent company, a franchise may be less profitable. You must follow the parent company’s guidelines. Also, since you did not build the company from scratch, there may be less satisfaction.

**Joining a Family Business**

Does a member of your family own a business? If so, this might give you a shortcut to entrepreneurship.

**Advantages**

Taking over a family business can offer the advantages of the franchise without the fees:
1. Your relatives might help you finance the business.
2. Family members tend to be loyal and to trust each other.
3. Family members working as a team can achieve more than individuals.
4. Relatives can teach you the business.
5. Customers are likely to give the same trust and goodwill to a new owner who is part of the previous owner’s family.

**Potential Disadvantages**

A family business can present special issues in addition to the usual hazards of business ownership. Some families work well together, others do not. Difficulties at work can affect family relationships.

> THE FAMILY BUSINESS Joining a family business can be a quick entry into the business world. What are some possible disadvantages of joining a family business?

![Image of two men in a shoe store](Image)

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**Reading Check**

IDENTIFY What are four ways to become a business owner?
Owing a Business

As a business owner, one of the first questions you will have to answer is how to organize your business. Will you own the business by yourself, or will you share the work and the risks?

Forms of Legal Ownership

There are three basic choices for legal form of business ownership: sole proprietorship, partnership, and corporation. Figure 4.1 on page 91 compares the advantages and disadvantages of each form.

Sole Proprietorship

Most businesses begin as a sole proprietorship. In a sole proprietorship, the business is completely owned by one person. The owner, or proprietor, owns all the business’s assets and is responsible for all its debts.

Partnership

A partnership is a legal arrangement in which two or more people share ownership. Control and profits are divided among the partners according to a partnership agreement. In a partnership, all partners are liable, or legally responsible, for the debts of the business.

Corporation

A corporation is a business chartered by a state that legally operates apart from the owner(s). The owners buy shares, or parts, of the company. They are called shareholders and earn a profit based on the number of shares they own. Corporations are more complex than other forms of ownership and are required to keep more records. Shareholders have only limited responsibility for the debts of a corporation.

Operating Your Business

Whatever type of business you launch, you will need money to finance it.

Financing

Where will you get the money to start your business? You might draw on your savings or get a loan from friends. More likely, you will need to borrow money from a commercial lender. To apply for a loan, you will need a business plan and a financial plan.

A business plan gives specific information about your business. It describes your product and states where your business will be located. It specifies how many employees you will hire and what their salaries
will be. It describes your competitors and points out their strengths and weaknesses. It also describes your marketing plan and your timetable for starting the business.

A financial plan spells out your start-up costs, operating expenses, and other costs for the first few months. Operating expenses are the costs of doing business, such as the costs of manufacturing and selling the product.

**Ongoing Operations**

Once you start a business, you will have to keep accurate financial records. These records are needed for tax purposes and for seeking additional financing. They will also tell you how your business is doing.

One essential business record is the **income statement**, which is a summary of a business’s income and expenses during a specific period, such as a month, a quarter, or a year. The first item in an income statement is **revenue**, which is the income from sales. Another item is **gross profit**, which is the difference between the cost of goods and their selling price. **Net profit** is the amount left after operating expenses are subtracted from the gross profit.

**Figure 4.1**  
**FORMS OF BUSINESS OWNERSHIP**

<table>
<thead>
<tr>
<th>Forms of Business Ownership</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
</table>
| **Sole Proprietorship**    | • Owner makes all decisions  
• Easiest form of business to set up  
• Least regulated form | • Limited by the skills, abilities, and financial resources of one person  
• Difficult to raise funds to finance business  
• Owner has sole financial responsibility for company; personal assets may be at risk |
| **Partnership**            | • Can draw on the skills, abilities, and financial resources of more than one person  
• Easier to raise funds than in sole proprietorship | • More complicated than sole proprietorship  
• Tensions may develop among partners  
• Owners liable for all business losses; personal property may be at risk |
| **Corporation**            | • Easier to finance than other forms of business  
• Financial liability of shareholders limited (usually they can lose only what they have invested) | • Expensive to set up  
• Record keeping can be time-consuming and costly  
• Can pay more taxes than other forms |

**OWNERSHIP** Every form of business ownership has its advantages and disadvantages. **What business do you know that is a sole proprietorship? A partnership? A corporation?**
Another important business record is a balance sheet, which summarizes a business’s assets, liabilities, and owner equity. Assets are anything of monetary value that you own. Money in the bank and inventory are current assets. Fixed assets include land, equipment, furniture, and fixtures. Liabilities are debts a business owes. Current liabilities must be paid during the current year. Long-term liabilities are not due in the next 12 months. Net worth is the difference between assets and liabilities. The savings you invest in your business are your equity, or ownership interest, in the business.

A cash flow statement is another essential business record. This statement is a monthly plan that shows when you anticipate cash coming into the business and when you expect to pay out cash. A cash flow statement helps you see if you will have enough money to pay your bills.

Succeeding in Business

Knowing the factors that affect business success will improve your chances of success. These factors include financing, location, competition, and management.

Location

Location can be very important to some businesses. For example, a restaurant must be physically near potential customers. With an online business, however, you may be able to process orders and ship goods from anywhere. In this case, location is not as important.

When location is important, consider these factors: the type of businesses in the area, the condition of streets and buildings, the cost of property, the location of the competition, and the location of your customers.
If your business allows for it, you might consider working at home. It can be less costly than renting or leasing a location and more convenient. You will also enjoy more flexibility. Be aware, though, that some communities restrict the kinds of businesses that can operate in residential areas. Also, many business owners feel isolated working at home.

**Competition**

Running a successful business means competing successfully. To do that, you must be familiar with your competitor’s product or service—and produce a better one.

**Management**

Businesses that are successful are usually managed well. Poor management is one of the main reasons for business failure. To manage their businesses, entrepreneurs need a variety of skills and competencies, including reading, writing, listening, and speaking. For example, math skills are needed for almost every aspect of business, from setting prices to calculating payroll. If you open a business, how will you use your reading, writing, listening, speaking, and math skills?

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**Section 4.2 After You Read**

**Review Key Concepts**

1. Name the four ways to become a business owner. Which one would you choose? Why?
2. Explain the differences between a partnership and a corporation.
3. Describe one of the documents you would need to prepare to apply for a business loan.

**Practice Academic Skills**

**Mathematics**

4. Jun and Lisa just started a landscaping business. Their first job is to put sod in a park. There are two areas that need grass, one measuring 32 feet by 15 feet and another measuring 20 feet by 14 feet. How many square feet of sod will they need?

**Concept:** Calculating Area  The formula for area is length times width. Area is always measured in square units, such as square feet.

**Step 1:** Calculate the area of each of the two parts of the park by multiplying the lengths (32 feet and 20 feet) by their respective widths (15 feet and 14 feet). Remember to label with square units.

**Step 2:** Add the two areas together to get the total area. Again, remember to label.

For math help, go to the Math Appendix located at the back of this book.
**CAREER FACTS**

**Education or Training** A bachelor’s degree in marketing, public relations, communications or journalism is necessary to advance beyond entry level. Internships provide a broad range of experience. Involvement in college and community organizations is helpful, especially those organizations that include making sales and marketing presentations and/or public speaking.

**Academic Skills Required** English Language Arts, Mathematics, Social Studies

**Technology Needed** Computer skills for writing, editing, and designing printed content and Web content

**Aptitudes, Abilities, and Skills** Creativity, customer service skills, organization skills, photography, design skills, business administration, writing and editing skills, public speaking, and sales marketing skills.

**Workplace Safety** Because the work can involve long periods in front of a computer terminal typing on a keyboard, carpal tunnel syndrome and other hand and wrist injuries can occur.

**Career Outlook** Employment of public relations specialists is expected to grow faster than average for all occupations over the next ten years.

**Career Path** Public relations specialists are advocates for businesses, nonprofit organizations, universities, hospitals, and other organizations. Higher-level positions involve managing others and public speaking.

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### Academic Skills Required to Complete Tasks

<table>
<thead>
<tr>
<th>Tasks</th>
<th>English Language Arts</th>
<th>Mathematics</th>
<th>Social Studies</th>
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<tbody>
<tr>
<td>Plan special events</td>
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<td>★</td>
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<tr>
<td>Write advertisements, articles, and scripts</td>
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<tr>
<td>Coordinate and attend photo shoots</td>
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<tr>
<td>Write and edit newsletters, magazine articles, Web content, and mailings</td>
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**Critical Thinking**

Why are communication skills important for workers in the public relations field?