Session Eight

Building a Business Plan — Part B: Getting Money to Start Your Business

It is not necessary to do extraordinary things
to get extraordinary results.

— Warren Buffett

Overview:

One of the great inescapable truths of entrepreneurship is that it takes money to start a business. The amount of capital you need depends on what type of business you are hoping to start. When it comes to financing a business, adult entrepreneurs have the option of using credit, which is also known as borrowing money. Adults can take their business plan to a bank or credit union and apply for a business loan. However, until you are at least 18-years-old and have developed a good credit history, you do not have this option. For this reason, the Aspira Business Club focuses on showing you ways to raise the money you will need through saving and investing.

Saving and investing plays a significant role for any future entrepreneur and any person who wants to be wealthy one day. Saving is essential for reaching your goals, and it means setting aside money to prepare for an unexpected emergency or for a future purchase. Investing is a next step to good financial planning, and it means putting your money into products that increase in value over the long term. Investing is different from saving because some risk is involved. However, the payoff is usually higher.

During this session, we will explore some common saving and investing products that can help you get your money working for you. These products range from certificates of deposit (CDs) and money market accounts to stocks, bonds to property. We will discuss the advantages and disadvantages of each product so that you will be on your way to being able to maximize your saving and investing opportunities.

Another side of investing for business owners comes into play when the owner uses his or her business to create an investment opportunity for someone else, and we will also discuss this practice. As an entrepreneur, you can invite another person to invest in your company, where that person becomes a partial owner and provides you with cash that you can use to operate your business. This is different than a business loan because your investor retains ownership (often through holding stock in your business) or asks for a percentage of your business' future profits. Often times, relying on investors in your business provides the much-needed funds you need to get your idea off the ground.

Learning to invest strategically, and to make your business a strategic investment for others, is one way to secure the money you will require to start, run and expand your business. In your personal and business life, it is critical for you to understand how investing works and how you can make it work for you.

Note to instructor: The complexities of financial planning present an excellent opportunity to invite a financial professional into the classroom to present a portion of this activity or answer specific questions. This is also an excellent opportunity to use *The Stock Market Game* or other simulated investing games with the club.

SESSION GOAL: Introduce students to saving and investing basics, as well as the role of investors for business owners.

Section activities at a glance:

	Suggested Activities	Time	Objective
presentation	**8.1 Making Your Money Work for You**	15	Describe the benefits of saving and the different savings products available.
presentation	**8.2 Investing in Yourself and in Your Business**	15	Review the difference between saving and investing. Describe popular investment products. Provide an overview of the relationship between business ownership and investing.
interaction	**8.3 Role-Play — Meet Your Investors**	15	Allow students to act out the roles of entrepreneurs and investors in negotiating an investment to start a company.
discussion	**8.4 Class Discussion: Review background research, current events and case studies**	15	Solicit input from students on what they have observed about ethics in the news.
book talk	**8.5 Background Reading**	20	Discuss this week s assigned text. Review the major lessons and answer any questions. Determine how students can put the information to use for their own entrepreneurship plans.
preview	**8.6 Session IX Preview and Assignments**	5	Provide overview of next session s topic. Clarify time and meeting place of next activity. Assign background reading.

presentation

Activity 8.1: Making Your Money Work for You

Time: 15 minutes

Purpose: Describe the benefits of saving and the different savings products available.

Materials Needed: Chalkboard or flip chart, participant handouts.

Facilitator Presentation — Discussion Notes:

Even as a young person, it's not too early to start exploring opportunities to make your money work best for you. One of the first steps to becoming "money smart" is to be a regular saver. This means that each time you receive money, you set aside part of it for your savings. Saving is a great way to plan for an unexpected emergency or prepare to make a big purchase.

Many of you are probably familiar with savings accounts. A **savings account** is a safe, simple way to set aside extra money that you don't need to use day-to-day. If you are under 18, you can open a custodial savings account, where your parent is a co-account holder. Many banks or credit unions ask you to maintain a minimum balance in your account and require that you do not go over a certain number of withdrawals per month, usually about five. Savings accounts pay you interest, which is a percentage of the balance you maintain. Over time, savings kept in this type of account will grow.

Savings accounts have the advantages of being relatively inexpensive, available to anyone with an adult co-signer, and offer you easy access to your money. The money is your savings account is secure; funds are guaranteed by the US Government (FDIC[1]) up to $100,000, so you never have to worry about losing your money. The disadvantage of savings accounts is that the interest rate paid to you is usually small. On top of that, the easy access to the funds may be a temptation for you to make frequent withdrawals.

[1] FDIC stands for Federal Deposit Insurance Corporation. For more information, see: http://www.fdic.gov.

Other products might better fit your needs if the disadvantages of a savings account bother you. There are other types of savings products that offer different terms, including paying you a higher interest rate if you agree to put your money away for longer periods. (Students should turn to Handout 1). Handout 1 shows you some of your savings options:

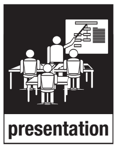
A **money market account** is similar to a savings account in that the FDIC usually guarantees your deposits, so it is very unlikely that you will lose any of your money. This type of account may pay a higher interest rate because the bank is actually investing your savings in the stock market. The accounts may charge you higher fees or have other restrictions, so you should read the fine print before you choose this product.

US Treasury Bonds are a way for you to lend money to the US government by purchasing a bond that doubles in value over a twenty-year period. Because the Government is involved, there is no risk of the bond losing value and you are not taxed on the amount. Treasury bonds are often purchased for one-half of the face value (e.g. for $50 you can buy a $100 savings bond). It takes 20 years for the bond to "mature" or to reach face value. Many people give savings bonds to children who will be able to cash them in at a later time. This is a secure way to establish long-term savings and can be viewed as a patriotic way to help the government.

Certificates of Deposit — Often called CDs, Certificates of Deposit are a type of long-term savings product. Usually, you buy a CD for a fixed amount of money and agree not to cash it in for a set period of time, usually three months, six months or a year. The longer the CDs lifespan, the higher interest rate you will earn. If you decide to take your money out of the CD before the period is up, you will risk paying a fine.

Discussion questions:

a) What are some of the benefits and some of the barriers to saving?
b) What savings products appeal to you right now? Why?
c) Which of these products are familiar to you? Which are you already using?



Activity 8.2: Investing in Yourself and Your Business

Time: 15 minutes

Purpose: To provide an overview of the relationship between business ownership and investing.

Materials Needed: Chalkboard or flip chart, participant handouts.

Facilitator Presentation — Discussion Notes:

(Encourage students to follow along on their handouts)

Personal Investing

Once you feel you have a comfortable amount set aside in your savings for "a rainy day," it's time to start being more strategic with your financial resources. The average American never learns how to invest successfully and therefore never achieves true wealth. By beginning now, you will be far ahead of the game.

Investing is different from saving because your investments are not guaranteed by the government and may lose value. It often costs more to begin investing than it costs to open a savings account. However, investing means you run some risk in order to earn a greater reward: most investment products, over time, will earn a far greater rate of return (i.e. make you more money) than a savings account. For this reason, once you have achieved your savings goals, it is important to start looking for ways to invest strategically so that your money is earning you the most return possible.

The next step in investing is to understand your options (Students should turn to Handout 2). When we talk about investment options, what you will want to keep in mind is the relationship between risk (as in how likely it is that you will lose money) and return (as in how much your investment will earn for you). Generally speaking, the higher the risk, the greater the possible return. If this sounds to you like gambling, you aren't far off the mark.

Here is more about the most common investment products:

When you buy **stock,** you purchase pieces of ownership in a company**.** Depending on the company's performance, whether it is earning profits and growing, as well as the overall mood of the markets, your stock may gain or lose value. Owning stock is risky since the value of your portfolio will change every day. Over the long term, stock has been shown to earn more for investors than any other investment product. Most people will tell you not to invest in the stock market unless you are ready to make a long-term commitment.

In addition to **US Treasury Bonds** that we discussed in the previous section, you can also invest in **corporate bonds.** This type of bond functions the same way, but instead of the government, you are loaning money to a business. Since bonds have established interest rates and time periods, they are more stable than stock. However, bonds typically don't increase in value as quickly as stock.

If you prefer to stay away from risk, but you still like the idea of investing in the stock market, **Mutual Funds** may be for you. Mutual funds are managed by investment professionals who pool the money of all their investors to buy stock in a variety of companies. You can choose whether you want your investment used to buy high risk/high return stock, medium risk/return or low risk/return. Because your investment is spread out over several companies, your investment is less likely to lose value.

Once you start working, your company may offer you the opportunity to participate in a **retirement investment plan.** Under these plans, you set aside part of your salary each month to be invested by the company. A common form of this type of retirement plan is called a **401(k).** You can invest for your retirement on your own by using an **IRA** (Investment Retirement Account). The money you set aside for retirement will grow when it is invested correctly; however, except in special circumstances, you can't withdraw these funds until you reach 62.

Finally, owning **real estate,** such as a home, is an investment that usually pays off over the long term. While there is some risk involved, real estate is more stable than the stock market.

Major considerations for investors (see Handout 4): Safety, returns, stability, access to funds, diversification.

Investing in Your Business

The other side of investing, different from what you may do as an individual, concerns using your business as an investment. Think about the definition of stock from the above section. One way to raise cash as a business owner is to offer your company as an investment opportunity for others. Some especially promising start-up companies attract the attention of investors called **venture capitalists.** Venture capitalists provide funding to young companies in return for a percentage of the business' value (called "equity") or profits in the future. Another route to raising the funds you need through investors is to bring on one or more business **partners** who would share the responsibility and the profits with you. You could also set up your company as an **employee-owned business,** where each of your employees is able to purchase ownership in the company, in the form of stock or retirement plans. Many business leaders feel that this type of shared ownership is the best way to motivate employees. Finally, when your company reaches a substantial size, you may decide to make it a **corporation.** Corporations offer shares of the company's **stock** to the public, and become publicly-owned.

When people own stock in your company, you are exchanging some of the ownership for the cash you need to run the business or expand. Stockholders are investors who are gambling on your company's success increasing the value of their stock in the future. Different from the creditors who *lend* you money knowing you will pay it back, investors *risk losing* their money if your company does not perform. One crucial part of your business plan involves convincing both potential creditors and investors that your business idea and operation plans will create a successful company.

Discussion questions:

a) What are the crucial differences between saving and investing?
b) When is someone ready to invest?
c) What investment products appeal to you right now? Why?
d) Which of these products are familiar to you? Which are you already using?
e) If you decide to attract investors to your company, what process would you use?

interaction

Activity 8.3: Role-Play: Meet Your Investors

Time: 15 minutes

Purpose: Allow students to act out the roles of entrepreneurs and investors in negotiating an investment.

Materials Needed: Flipchart for recording responses.

Activity Plan:

Each student should have a draft copy of his or her business plan.

1) Break students into groups of two people each. One person plays the start-up entrepreneur and the other plays an investor who is considering investing $50,000 in the business.

2) Each 'entrepreneur' should highlight what aspects of his or her business plan should impress the investor.

3) Each 'investor' should consider the five main concerns when investing (safety, returns, stability, access to funds, diversification) to determine if this is a solid or risky investment.

4) After a five minute discussion, the investor should be ready to give a yes or no answer, and to list the conditions under which he or she might be willing to invest the money.

5) For the second five minutes, the two players switch roles.

6) At the end of the second five minutes, each team should briefly explain the outcome of each scenario to the other teams.

7) The instructor should spend any remaining time leading a class discussion on the common themes raised by the investors and entrepreneurs. What can the students learn from this that will better prepare them to present their business plans to investors?

Activity 8.4: Class Discussion

Time: 20 minutes

Purpose: Solicit input from students on what they have observed about the world of finance and investing over the past week.

Materials Needed: Chalkboard, or flip chart; current events articles; journals.

Discussion Ideas:

During a typical *Aspira Business Club* session, a portion of the time should be dedicated to discussing current events. You may have elected to assign a topic based on an upcoming session, or may leave this session open to students' interests. You may wish to use this portion of class to assess the students' current knowledge and opinions about entrepreneurship and business practices in general. Using the feedback, consider ways to tailor the course further to students' interests.

Activity 8.5: Discussion of Background Reading

Time: 20 minutes

Purpose: Discuss this week's assigned text. Review the major lessons and answer any questions. Determine how students can put the information to use for their own entrepreneurship plans.

Materials Needed: "Book Discussion Notes" found in the *Teaching Entrepreneurship* Guide for whatever text has been assigned as the pre-course reading. Copies of participant handouts.

Activity 8.6:
Assignments & Session 9 Preview

Time: 5 minutes

Purpose: Provide overview of next session's topic. Clarify time and meeting place of next activity. Assign background reading, journal entry and research topics.

Materials Needed: None

Steps to Cover:

1) Using the Objectives Section of the Session 8 Facilitator's Guide, preview the topics that will be discussed during the next session.

2) Assign students a topic for next week's journal entry.

3) Assign the pages or chapters for the next session's book discussion.

4) Make sure that students are clear on the next meeting time and place of the *Aspira Business Club*. Indicate how any schedule changes will be communicated and decide if you or a student will send a reminder.

Handout 1: Saving vs. Investing

Saving is storing money safely for example, in a bank account-for short-term needs such as daily living expenses, other regular needs and emergencies. Typically, you earn a low, fixed rate of return and can withdraw your money easily.

Investing is taking a risk with a portion of your savings-such as by buying shares, property or bonds-in the hope of realizing higher long-term returns. Unlike bank savings, stock, property and bonds can decline in value from time to time.

Saving	Investing
Short Term	Long Term
Deposits guaranteed up to $100,000	Investments may lose value
Lower interest rates	Interest rate or gains usually higher
Easy, quick access to your funds (called liquidity)	More difficult to access your funds
Write a scenario where someone would choose saving over investing.	Write a scenario where someone would choose investing over saving.

Handout 2: Types of Savings Products

Instructions: As you cover the information about ways you can save, use this sheet to write your own definition, including the plusses and minuses of each savings option.

Savings Account:

Money Market Account:

US Treasury Bond:

Certificate of Deposit (CD):

Handout 3:
Types of Investment Products

Instructions: As you cover the information about ways you can *invest*, use this sheet to write your own definition, including the plusses and minuses of each investment option.

Stock:

Bonds:

Mutual Funds:

Retirement Plans:

Real Estate:

Handout 4: Considerations When Investing