



LESSON 7 FINANCING THE ENTERPRISE

ACTIVITY 1

SAMANTHA CASE STUDY

Samantha was sick and tired of not having enough money to buy the things she wanted. She expressed her frustration to her father, declaring “I need to make some money. I want to start my own business!” Her father was impressed by her determination, and he quickly saw an opportunity to teach his daughter some money management and entrepreneurship skills. He suggested that she check out the old lawn mower in the garage. “The motor died about a month ago, so it’s been sitting there unused. If you can fix it, it’s yours. And, with a working lawn mower, you would be steps away from being a business owner.”

Samantha didn’t know how to fix engines, but she immediately remembered her neighbor Doug, a retired mechanic who might be able to get her lawn mower in working order free of charge. As hoped for, Doug was happy to help, and he quickly identified the problem: the mower needed new parts. But, as Samantha quickly learned on her trip to the hardware store, the new parts cost money—\$44, to be exact. The whole reason for starting this business was because Samantha didn’t have enough money in the first place!

Samantha didn’t want to give up so easily though. Maybe spending some money up front would be worth it if she could have a money-making business in the long run. When she got home, Samantha asked her father for the money to purchase the lawn mower parts. Her father said he would loan her half of the money if she promised to pay him back. Samantha went up to her room and scraped together \$22 from her piggy bank, her change purses, and a birthday card from Grandma. She agreed to take her father’s loan of \$22.

A few days later, Doug had fixed the lawn mower, and Samantha had secured her first client. A family friend named David had agreed to let Samantha mow his lawn for \$20. However, there was another hitch: the lawn mower didn’t have gas! Samantha went back to her father and asked for help purchasing fuel. Her father was impressed that she had gotten the mower running again, and he suggested she buy some lawn bags and a rake to make sure she was totally prepared for her first job. He said he would loan her the \$28 necessary to cover these costs if she paid him back. Excited to get her business up and running, Samantha agreed.

Early the next Saturday, Samantha spent several hours mowing and raking the lawn. Much to her excitement, David presented Samantha with a crisp new \$20 bill. She set up an appointment in two weeks to mow the lawn again. Wow! This would mean another \$20. At this rate, she figured that she would make \$120 mowing the lawn every other week for the next 12 weeks.

Samantha ran home to celebrate her success, her imagination running wild with thoughts of all the things she could now buy—both for herself and for her new business. However, Samantha’s excitement was tempered when she saw a sheet of paper taped on her bedroom with “Samantha Debt To Dad: \$50!” written in big letters. When Samantha went to her father, she asked when she had to pay him back. Her father gave her three options:

1. Samantha could pay him all of the \$20 for each lawn mowed until the debt is paid off.
2. Samantha could pay him only \$10 for each lawn mowed until the debt is paid off, but her father would charge her 5% interest on her debt every time she mowed a lawn. (In other words, he would add \$1 to her debt for each lawn mowed.)
3. Samantha could pay him nothing at all, but only if Samantha agreed to make him a part-owner of the business. As a part-owner of the business, Samantha’s dad would have a say in the business and receive 25% of all future earnings made through the lawn mowing business.