

# ENTREPRENEURSHIP & SMALL BUSINESS MANAGEMENT

**Second Edition  
Global Edition**

**Steve Mariotti • Caroline Glackin**

**PEARSON**

Boston Columbus Indianapolis New York San Francisco Upper Saddle River  
Amsterdam Cape Town Dubai London Madrid Milan Munich Paris Montréal Toronto  
Delhi Mexico City São Paulo Sydney Hong Kong Seoul Singapore Taipei Tokyo

# Brief Contents

- UNIT 1 Entrepreneurial Pathways 23**
- Chapter 1** Entrepreneurs Recognize Opportunities 24
- Chapter 2** Franchising 56
- Chapter 3** Finding Opportunity in an Existing Business 78
- Chapter 4** The Business Plan: Road Map to Success 96
- Honest Tea Business Plan 127**
- Unit 1 Entrepreneurial Pathways: SPANX—Idea to Entrepreneurial Opportunity 154**
- UNIT 2 Who Are Your Customers? 159**
- Chapter 5** Creating Business from Opportunity 160
- Chapter 6** Exploring Your Market 190
- Unit 2 Opportunity Assessment: Kitchen Arts & Letters, Inc.—An Independent Bookstore Defies Industry Odds 217**
- UNIT 3 Integrated Marketing 221**
- Chapter 7** Developing the Right Marketing Mix and Plan 222
- Chapter 8** Pricing and Credit Strategies 246
- Chapter 9** Integrated Marketing Communications 270
- Chapter 10** Marketing Globally 310
- Chapter 11** Smart Selling and Effective Customer Service 344
- Unit 3 Integrated Marketing: Impact—Making an Impact for Entrepreneurs 368**
- UNIT 4 Show Me the Money: Finding, Securing, and Managing It 371**
- Chapter 12** Understanding and Managing Start-Up, Fixed, and Variable Costs 372
- Chapter 13** Using Financial Statements to Guide a Business 396
- Chapter 14** Cash Flow and Taxes 432
- Chapter 15** Financing Strategy: Debt, Equity, or Both? 462
- Unit 4 Show Me the Money: Finding, Securing, and Managing It—Lee’s Ice Cream 492**
- UNIT 5 Operating a Small Business Effectively 497**
- Chapter 16** Addressing Legal Issues and Managing Risk 498
- Chapter 17** Operating for Success 530
- Chapter 18** Location, Facilities, and Layout 558
- Chapter 19** Human Resources and Management 582
- Unit 5 Operating a Small Business Effectively: ONLC Training Centers—Virtual IT Training in a Classroom 613**
- UNIT 6 Leadership, Ethics, and Exits 617**
- Chapter 20** Leadership and Ethical Practices 618
- Chapter 21** Franchising, Licensing, and Harvesting: Cashing in Your Brand 636
- Unit 6 Cashing in the Brand: Honest Tea—From Start-Up to Harvest 655**
- Appendix 1 Sample Student Business Plan 661
- Appendix 2 BizBuilder Business Plan 689
- Appendix 3 Resources for Entrepreneurs 696
- Appendix 4 Useful Formulas and Equations 702
- Glossary 703
- Index 711

# Contents

## UNIT 1 Entrepreneurial Pathways 23

### Chapter 1 Entrepreneurs Recognize Opportunities 24



- Entrepreneurship Defined 25
  - What Is an Entrepreneur? 25
  - The Economic Questions 26
  - Voluntary Exchange 27
  - Benefits and Challenges of Free Enterprise 27
  - What Is a Small Business? 28
- Why Become an Entrepreneur? 28
  - The Desire to Make Money Is Not the Only Reason to Start a Business 30
  - Definitions of Success—Monetary and Other 30
  - Taking the Long View 31
- Benefits and Costs of Becoming an Entrepreneur 31
  - Cost/Benefit Analysis 32
  - Opportunity Cost 33
  - Seeking Advice and Information to Succeed 33
- Entrepreneurial Options 35
- How Do Entrepreneurs Find Opportunities to Start New Businesses? 37
  - Entrepreneurs Creatively Exploit Changes in Our World 37
  - Where Others See Problems, Entrepreneurs Recognize Opportunities 38
  - Train Your Mind to Recognize Business Opportunities 38
  - Entrepreneurs Use Their Imaginations 39
- An Idea Is Not Necessarily an Opportunity 39
  - Opportunity Is Situational 40
  - The Five Roots of Opportunity in the Marketplace 40
  - Integrating Internal and External Opportunities 40
  - Establishing Strategies 41
- Paths to Small Business Ownership 42
  - Securing Franchise Rights 42
  - Buying an Existing Business 42
  - Licensing Technology 43
  - Do Not Take Unfair Advantage of Someone Else's Creativity 43
  - The Many Faces of Entrepreneurship 44

Making the Business Work Personally and Professionally 45

A Business Must Make a Profit to Stay in Business 45

Profit Is the Sign That the Entrepreneur Is Adding Value 45

Profit Results from the Entrepreneur's Choices 45

Seven Rules for Building a Successful Business 46

The Team Approach 46

### Chapter 2 Franchising 56



Defining Franchising 57

What Are the Types of Franchises? 57

Positive Aspects of Franchises 59

Start-Up Assistance 59

Instant Recognition 60

Purchasing Power 60

Advertising and Promotional Support 60

Operating Guidelines and Assistance 61

Record of Success 62

Drawbacks of Buying a Franchise 62

Constraints on Creativity and Freedom 62

Costs 63

Standards and Termination 64

The Structure of the Franchise Industry 64

Franchising and the Law 65

Steps for Franchise Selection 67

Exploring Global Franchising Opportunities 69

### Chapter 3 Finding Opportunity in an Existing Business 78



Reasons to Buy an Existing Business 80

Quicker, Easier Start-Up 80

Reduced Risk 80

Bargain Potential 81

Your Knowledge Can Be Beneficial 81

Potential Pitfalls of Buying an Existing Business 81

Investment Requirements 82

Buying Someone Else's Problems 82

Business Is Not a Good Fit 83

Finding and Evaluating Available Businesses 83

Sources of Existing Businesses	83
Due Diligence—Reality versus the Story	84
Determining the Value of a Business	86
Negotiating and Closing a Purchase	88
Buying into a Business over Time	88
Family Business as an Entrepreneurial Opportunity	88

## Chapter 4 The Business Plan: Road Map to Success 96



Feasibility Analysis: Does My Idea Work?	97
Analyzing Product and/or Service Feasibility	98
Analyzing Market and Industry Feasibility	99
Analyzing Financial Feasibility	101
Creating a Business Model Canvas	102
What Is a Business Plan?	105
Why Do You Need a Business Plan?	106
Writing a Business Plan Early Will Save You Time and Money	106
Your Business Plan Is the Key to Raising Capital	107
The Business Plan Is an Operations Guide	107
Business Plan Components	107
Cover Page and Table of Contents	108
Executive Summary: A Snapshot of Your Business	108
Mission, Vision and Culture	109
Company Description: Background and Track Record	110
Opportunity Analysis and Research: Testing Ideas	110
Marketing Strategy and Plan: Reaching Customers	111
Management and Operations: Making the Plan Happen	112
Financial Analysis and Projections: Translating Action into Money	113
Funding Request and Exit Strategy: The Ask and the Return	117
Appendices: Making the Case in Greater Detail	118
Business Plan Suggestions	118
Presenting Your Business Plan	119
Business Plan and Venture Competitions	120
<b>Honest Tea Business Plan</b>	<b>127</b>

## Unit 1 Entrepreneurial Pathways: SPANX—Idea to Entrepreneurial Opportunity 154

### UNIT 2 Who Are Your Customers? 159

#### Chapter 5 Creating Business from Opportunity 160



Apple and the Personal Computer	161
Business Definition	162
What Sort of Organization Do You Want?	163
Your Company's Core Values	163
Your Company's Mission Is to Satisfy Customers	164
Your Company's Vision Is the Broader Perspective	165
Your Company's Culture Defines the Work Environment	165
The Decision Process	166
Your Competitive Advantage	167
Find Your Competitive Advantage by Determining What Consumers Need and Want	168
You Have Unique Knowledge of Your Market	168
The Six Factors of Competitive Advantage	169
Is Your Competitive Advantage Strong Enough?	169
Checking Out the Competition	170
The Most Chocolate Cake Company	171
Competitive Strategy: Business Definition and Competitive Advantage	173
Feasibility Revisited: The Economics of One Unit as a Litmus Test	174
Defining the Unit of Sale	175
Cost of Goods Sold and Gross Profit	175
Your Business and the Economics of One Unit	176
The Cost of Direct Labor in the EOU—An Example	178
Hiring Others to Make the Unit of Sale	178
Going for Volume	179

#### Chapter 6 Exploring Your Market 190



Markets and Marketing Defined	191
A Business That Markets versus a Market-Driven Business	192

## Market and Marketing Research Support Success 192

Research Your Market *Before* You Open Your Business 192

Types and Methods of Research 193

Getting Information Directly from the Source: Primary Research 193

Getting Information Indirectly: Secondary Research 194

## Market Research Helps You Know Your Customer 195

Customer Research 197

Industry Research: The 50,000-Foot Perspective 199

Make Market Research an Integral Part of Your Business 200

## How Customers Decide to Buy 201

Owning a Perception in the Customer's Mind 201

Features Create Benefits 202

Home Depot: Teaching Customers So They Will Return 202

## Which Segment of the Market Will You Target? 203

Successful Segmenting: The Body Shop 203

Applying Market Segmentation Methods 204

The Product Life Cycle 206

Is Your Market Saturated? 207

## Market Positioning: Drive Home Your Competitive Advantage 207

Developing a Marketing Plan 208

## Unit 2 Opportunity Assessment: Kitchen Arts & Letters, Inc.—An Independent Bookstore Defies Industry Odds 217

## UNIT 3 Integrated Marketing 221

### Chapter 7 Developing the Right Marketing Mix and Plan 222



The Four Marketing Factors 223

Product: What Are You Selling? 224

Create Your Total Product or Service Concept 224

Focus Your Brand 225

Ford's Costly Failure: The Edsel 225

Ford's Focus on Success: The Mustang 225

How to Build Your Brand 226

Price: What It Says about Your Product 228

Place: Location, Location, Location! 228

Promotion: Advertising + Publicity 229

The Fifth P: Philanthropy 229

Cause-Related Marketing 230

Gaining Goodwill 230

Not-for-Profit Organizations 231

Teach for America and Upromise 231

What Entrepreneurs Have Built 232

You Have Something to Contribute 232

Developing a Marketing Plan 232

Marketing Analysis 233

Marketing as a Fixed Cost 234

Calculate Your Breakeven Point 234

### Chapter 8 Pricing and Credit Strategies 246



Pricing: Image, Value, and Competition Together 247

Strategies and Tactics for Effective Pricing 248

Pricing Varies by the Type of Firm 251

Pricing Techniques for Manufacturers 251

Pricing Techniques for Wholesalers 252

Pricing Techniques for Retailers 252

Keystoning—The Retailer's Rule of Thumb 253

Pricing Techniques for Service Businesses 254

Pricing Principles 255

Extending Credit to Customers 255

The Costs and Benefits of Credit 255

Types of Credit 255

Credit's Impact on Pricing 257

Managing the Credit Process 258

Sources of Credit Information 259

Aging of Receivables 259

Credit Regulation 259

Discounts, Incentives, and Other Price Adjustments 260

### Chapter 9 Integrated Marketing Communications 270



Use Integrated Marketing Communications for Success 271

Reinforce the Company's Unique Selling Proposition 271

Promotional Planning 272

Create a Promotional Strategy Using Promotions Opportunity Analysis 272

Determine a Promotional Budget 274

The Advertising Advantage	275
Advertising Agencies and Freelancers	276
Types of Advertising	277
Media Planning and Buying: Focus on Your Customer	278
The Media	278
Broadcast Media	279
Print Media	280
Outdoor Advertising (Out-of-Home Advertising)	282
Advertising Measurement: Beyond Reach and Frequency	284
Marketing Materials Should Reinforce Your Competitive Advantage	286
Collateral Materials: Print and Multimedia	286
Sales-Promotion Solutions	287
When to Use Promotional Tools	287
Advertising Specialties	287
Trade Show Exhibits	288
Mall Carts or Kiosks	288
Alternative Marketing	289
Other Media Venues	290
Database and Direct-Response Marketing	291
Data Collection, Coding, and Mining	291
Marketing Communications Driven by Databases	292
E-Active Marketing	293
Publicity Potential	296
Generating Publicity	296
Telling the Story	297
Sample Press Release	298
Follow Up a Press Release	298
Public Relations	298

## Chapter 10 Marketing Globally 310



Reasons to Market Globally	311
Market Expansion	312
Access to Resources	314
Cost Reduction	315
Location-Specific Advantages	315
Improving Quality Levels	316
Strategy Options for Global Ventures	316
Importing	316
Exporting	317
Strategic Alliances	321
International Licensing	322
International Franchising	323
International Facilities	323

Challenges to International Trade	324
Economic Risk	324
Political Risk	325
Organizational Capacity	325
Legal and Regulatory Barriers	327
Cultural and Ethnic Considerations	328
Support for Global Ventures	329
Market Research, Analysis, Planning, and Readiness	329
Customer and Partner Identification and Relationship Building	330
Financing	331
Trade Agreements Influence Global Marketing	334

## Chapter 11 Smart Selling and Effective Customer Service 344



Selling Skills Are Essential to Business Success	345
Selling Is a Great Source of Market Research	346
The Essence of Selling Is Teaching	346
The Principles of Selling	346
The Sales Call	348
Electronic Mail, Blogs, and Social Networks	348
Prequalify Your Sales Calls	349
Focus on the Customer	349
The Eight-Step Sales Call	350
Three Call Behaviors of Successful Salespeople	351
Analyze Your Sales Calls to Become a Star Salesperson	351
Turning Objections into Advantages	352
Use Technology to Sell	352
Successful Businesses Need Customers Who Return	354
Customer Service Is Keeping Customers Happy	354
The Costs of Losing a Customer	354
Customer Complaints Are Valuable	355
Customer Relationship Management Systems	356
Why Does CRM Matter?	357
Components of CRM for the Small Business	358
How Technology Supports CRM	359
<b>Unit 3 Integrated Marketing: Impact—Making an Impact for Entrepreneurs 368</b>	

## UNIT 4 Show Me the Money: Finding, Securing, and Managing It 371

### Chapter 12 Understanding and Managing Start-Up, Fixed, and Variable Costs 372



- What Does It Cost to Operate a Business? 373
- Start-Up Investment 374
  - Brainstorm to Avoid Start-Up Surprises 374
  - Keep a Reserve Equal to One-Half the Start-Up Investment 375
  - Predict the Payback Period 376
  - Estimate Value 377
  - Fixed and Variable Costs: Essential Building Blocks 378
- Calculating Critical Costs 378
  - Calculating Total Gross Profit (Contribution Margin) 379
  - Calculating EOU When You Sell Multiple Products 379
  - Fixed Operating Costs 381
  - Fixed Operating Costs Can Change Over Time 381
  - Allocate Fixed Operating Costs Where Possible 382
  - The Dangers of Fixed Costs 383
  - Using Accounting Records to Track Fixed and Variable Costs 383
  - Three Reasons to Keep Good Records Every Day 383
  - Cash versus Accrual Accounting Methods 386
  - Recognizing Categories of Costs 386

### Chapter 13 Using Financial Statements to Guide a Business 396



- Scorecards for the Entrepreneur: What Do Financial Statements Show? 397
- Income Statements: Showing Profit and Loss Over Time 398
  - Parts of an Income Statement 398
  - A Basic Income Statement 399
  - The Double Bottom Line 400
  - An Income Statement for a More Complex Business 400
- The Balance Sheet: A Snapshot of Assets, Liabilities, and Equity at a Point in Time 402
  - Short- and Long-Term Assets 404
  - Current and Long-Term Liabilities 404

- The Balance Sheet Equation 404
- The Balance Sheet Shows Assets and Liabilities Obtained through Financing 404
- The Balance Sheet Shows How a Business Is Financed 405
- Analyzing a Balance Sheet 406
- Depreciation 408
- Financial Ratio Analysis: What Is It and What Does It Mean to You? 408
  - Income Statement Ratios 408
  - Balance-Sheet Analysis 411

### Chapter 14 Cash Flow and Taxes 432



- Cash Flow: The Lifeblood of a Business 433
  - The Income Statement Does Not Show Available Cash 433
  - Rules to Keep Cash Flowing 435
  - Noncash Expenses Can Distort the Financial Picture 435
- The Working Capital Cycle 435
  - The Cyclical and Seasonal Nature of Cash Flow 435
- Reading a Cash Flow Statement 438
  - The Cash Flow Equation 438
  - Forecasting Cash Flow: The Cash Budget 438
- Creating a Healthy Cash Flow 441
  - Managing Inventory to Manage Cash 441
- Managing Receivables to Manage Cash 443
  - The Cash Effects of Accounts Receivable 443
  - The Life Cycle of Accounts Receivable 443
  - The Financing of Accounts Receivable 444
- Managing Accounts Payable to Manage Cash 444
  - Negotiating Payment 444
  - Timing Payables 445
- Capital Budgeting and Cash Flow 445
  - The Burn Rate 446
- The Value of Money Changes Over Time 447
  - The Future Value of Money 447
  - The Present Value of Money 448
- Taxes 450
  - Cash Flow and Taxes 450
  - Filing Tax Returns 450
  - Collecting Sales Tax 451

- Tax Issues for Different Legal Structures 451
- Make Tax Time Easier by Keeping Good Records 451

## Chapter 15 Financing Strategy: Debt, Equity, or Both? 462



- Going It Alone versus Securing Financing 463
  - How Often Do Small Businesses Really Fail? 464
- What Is the Best Type of Financing for You and Your Business? 464
- Gifts and Grants 465
- Debt Financing 466
  - Debt Financing: Pros and Cons 466
- Equity Financing 468
  - Equity Financing: Pros and Cons 468
- Where and How to Find Capital That Works for You 469
  - Having an Excellent Business Plan Goes a Long Way 472
  - How Capital Sources Read Your Business Plan 472
  - Family and Friends 472
  - Financial Institutions and Dimensions of Credit 472
  - Community Development Financial Institutions (CDFIs) 474
  - Venture Capitalists 475
  - Angels 476
  - Insurance Companies 477
  - Vendor Financing 477
  - Federally Supported Investment Companies 477
  - Financing for Rural/Agricultural Businesses 477
  - Self-Funding: Bootstrap Financing 478
- Accessing Sources Through Online Networking 478
- Investors Want Their Money to Grow: Can You Make It Happen? 479
  - How Stocks Work 479
  - How Bonds Work 480

## Unit 4 Show Me the Money: Finding, Securing, and Managing It—Lee's Ice Cream 492

## UNIT 5 Operating a Small Business Effectively 497

### Chapter 16 Addressing Legal Issues and Managing Risk 498



- Business Legal Structures 499
    - Sole Proprietorship 499
    - Partnership 501
    - Corporation 502
    - Tips for Entrepreneurs Who Want to Start a Nonprofit Organization 504
  - Contracts: The Building Blocks of Business 507
    - Working with an Attorney 507
    - Drafting a Contract 508
    - A Successful Contract Should Achieve the Four A's 508
    - Letter of Agreement 509
    - Breach of Contract 509
    - Small Claims Court 509
    - Arbitration 509
    - A Contract Is No Substitute for Trust 509
  - The Uniform Commercial Code (UCC) 510
  - The Law of Agency 510
  - Bankruptcy 511
  - Protecting Intangible Assets: Intellectual Property 513
    - Trademarks and Service Marks 513
    - Copyright 515
    - Electronic Rights 515
    - Patents 516
  - Protecting Tangible Assets: Risk Management 517
    - Insurance Protects Your Business from Disaster 517
    - Basic Coverage for Small Business 517
    - How Insurance Companies Make Money 518
    - Protect Your Computer and Data 519
    - Disaster Recovery Plans 519
  - Licenses, Permits, and Certificates 520
- ### Chapter 17 Operating for Success 530
- Operations Permit Businesses to Deliver on Their Promises 531
  - The Production-Distribution Chain 532





Supply Chain Management	533		
Finding Suppliers	534		
Managing Inventory	534		
Creating a Purchasing Plan	536		
Managing the Chain: Analyzing and Selecting Vendors	536		
Legal Considerations	537		
The Idea-To-Product Process	537		
Why Manufacturing Is Unique	538		
Job Shops	538		
Manufacturing Tips	539		
Just-in-Time Manufacturing	539		
Product Design and Costs	540		
Making versus Buying	541		
Facilities Location and Design	542		
Defining Quality: It Is a Matter of Market Positioning	542		
Profits Follow Quality	542		
Organization-Wide Quality Initiatives	542		
Benchmarking	543		
ISO 9000	544		
Six Sigma	544		
Total Quality Management	545		
Malcolm Baldrige Award	545		
Using Technology to Your Advantage	546		
Computer Access Is Essential	546		
Capture the Potential of the Telephone	546		
Identify Market-Specific Software and Technology	547		
Electronic Storefront (Web Site)	547		
<b>Chapter 18</b>	<b>Location, Facilities, and Layout</b>	<b>558</b>	
	The Importance of Physical Location	559	
	Key Factors in Deciding on a Location	560	
	Different Types of Businesses Have Different Location Needs	561	
	Options and Criteria for Manufacturing Facilities	561	
	Options and Criteria for Wholesale Businesses	562	
	Options and Criteria for Retail Businesses	562	
	Options and Criteria for Service and Professional Businesses	563	
	Evaluating Location Alternatives	564	
	Facilities Design and Layout	569	
	Special Considerations for Home-Based Businesses	572	
	Special Considerations for Web-Based Businesses	573	
<b>Chapter 19</b>	<b>Human Resources and Management</b>	<b>582</b>	
	Business Management: Building a Team	583	
	What Do Managers Do?	583	
	Adding Employees to Your Business	584	
	Growing Your Team	591	
	Creating and Managing Organizational Culture	592	
	Determining Organizational Structure	593	
	Getting the Best Out of Your Employees	595	
	Communicating Effectively	595	
	Human Resources Fundamentals	596	
	Compensation and Payroll	597	
	Benefits	597	
	Organizational Development	597	
	Education and Development	598	
	Labor Law and HR Compliance	598	
	Performance Management	599	
	Human Resources Strategy	602	
	Firing and Laying Off Employees	602	
	<b>Unit 5</b>	<b>Operating a Small Business Effectively: ONLC Training Centers—Virtual IT Training in a Classroom</b>	<b>613</b>
	<b>UNIT 6</b>	<b>Leadership, Ethics, and Exits</b>	<b>617</b>
<b>Chapter 20</b>	<b>Leadership and Ethical Practices</b>	<b>618</b>	
	The Entrepreneur as Leader	619	
	Leadership Styles That Work	619	
	How Entrepreneurs Pay Themselves	620	
	Manage Your Time Wisely	621	
	Ethical Leadership and Ethical Organizations	622	
	An Ethical Perspective	623	
	Establishing Ethical Standards	623	
	Corporate Ethical Scandals	625	
	Integrity and Entrepreneurial Opportunities	626	
	What Is Integrity?	626	
	Doing the Right Thing in Addition to Doing Things Right	626	
	Balancing the Needs of Owners, Customers, and Employees	627	
	Complying with the Law	627	

Social Responsibility and Ethics	628
Leading with Integrity and Examples	628
Encourage Your Employees to Be Socially Responsible	628

## Chapter 21 **Franchising, Licensing, and Harvesting: Cashing in Your Brand** 636



What Do You Want from Your Business?	637
Continuing the Business for the Family	637
Growth through Diversification	638
Growth through Licensing and Franchising	638
Focus Your Brand	639
When Licensing Can Be Effective	639
Franchising Revisited from the Franchisor Perspective	639
How a McDonald's Franchise Works	640
Do Your Research before You Franchise	640

Harvesting and Exiting Options	641
When to Harvest Your Business	641
How to Value a Business	641
The Science of Valuation	642
Creating Wealth by Selling a Profitable Business	643
Harvesting Options	644
Exit Strategy Options	646
Investors Will Care about Your Exit Strategy	647

## Unit 6 **Cashing in the Brand: Honest Tea—From Start-Up to Harvest** 655

Appendix 1	Sample Student Business Plan—University Parent	661
Appendix 2	BizBuilder Business Plan	689
Appendix 3	Resources for Entrepreneurs	696
Appendix 4	Useful Formulas and Equations	702
	Glossary	703
	Index	711