



GLOBAL  
EDITION

# Entrepreneurship and Small Business Management

SECOND EDITION

Steve Mariotti • Caroline Glackin



ALWAYS LEARNING

PEARSON

# 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

# Entrepreneurship and Small Business Management, Global Edition

## Table of Contents

Cover

Title

Copyright

Contents

Preface

### UNIT 1 Entrepreneurial Pathways

#### Chapter 1 Entrepreneurs Recognize Opportunities

##### Entrepreneurship Defined

What Is an Entrepreneur?

The Economic Questions

Voluntary Exchange

Benefits and Challenges of Free Enterprise

What Is a Small Business?

##### Why Become an Entrepreneur?

The Desire to Make Money Is Not the Only Reason to Start a Business

Definitions of Success: Monetary and Other

Taking the Long View

##### Benefits and Costs of Becoming an Entrepreneur

Cost/Benefit Analysis

Opportunity Cost

Seeking Advice and Information to Succeed

##### Entrepreneurial Options

##### How Do Entrepreneurs Find Opportunities to Start New Businesses?

Entrepreneurs Creatively Exploit Changes in Our World

Where Others See Problems, Entrepreneurs Recognize Opportunities

Train Your Mind to Recognize Business Opportunities

Entrepreneurs Use Their Imaginations

##### An Idea Is Not Necessarily an Opportunity

Opportunity Is Situational

The Five Roots of Opportunity in the Marketplace

Integrating Internal and External Opportunities

Establishing Strategies

##### Paths to Small Business Ownership

# **Table of Contents**

- Securing Franchise Rights
- Buying an Existing Business
- Licensing Technology
- Do Not Take Unfair Advantage of Someone Else's Creativity
- The Many Faces of Entrepreneurship

## **Making the Business Work Personally and Professionally**

- A Business Must Make a Profit to Stay in Business
- Profit Is the Sign That the Entrepreneur Is Adding Value
- Profit Results from the Entrepreneur's Choices
- Seven Rules for Building a Successful Business
- The Team Approach

## **Chapter 2 Franchising**

### **Defining Franchising**

- What Are the Types of Franchises?

### **Positive Aspects of Franchises**

- Start-Up Assistance
- Instant Recognition
- Purchasing Power
- Advertising and Promotional Support
- Operating Guidelines and Assistance
- Record of Success

### **Drawbacks of Buying a Franchise**

- Constraints on Creativity and Freedom
- Costs
- Standards and Termination

### **The Structure of the Franchise Industry**

### **Franchising and the Law**

### **Steps for Franchise Selection**

### **Exploring Global Franchising Opportunities**

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

### **Reasons to Buy an Existing Business**

- Quicker, Easier Start-Up
- Reduced Risk
- Bargain Potential
- Your Knowledge Can Be Beneficial

### **Potential Pitfalls of Buying an Existing Business**

- Investment Requirements
- Buying Someone Else's Problems
- Business Is Not a Good Fit

### **Finding and Evaluating Available Businesses**

# **Table of Contents**

Sources of Existing Businesses

Due Diligence Reality versus the Story

Determining the Value of a Business

Negotiating and Closing a Purchase

Buying into a Business over Time

Family Business as an Entrepreneurial Opportunity

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

Feasibility Analysis: Does My Idea Work?

Analyzing Product and/or Service Feasibility

Analyzing Market and Industry Feasibility

Analyzing Financial Feasibility

Creating a Business Model Canvas

What Is a Business Plan?

Why Do You Need a Business Plan?

Writing a Business Plan Early Will Save You Time and Money

Your Business Plan Is the Key to Raising Capital

The Business Plan Is an Operations Guide

Business Plan Components

Cover Page and Table of Contents

Executive Summary: A Snapshot of Your Business

Mission, Vision and Culture

Company Description: Background and Track Record

Opportunity Analysis and Research: Testing Ideas

Marketing Strategy and Plan: Reaching Customers

Management and Operations: Making the Plan Happen

Financial Analysis and Projections: Translating Action into Money

Funding Request and Exit Strategy: The Ask and the Return

Appendices: Making the Case in Greater Detail

Business Plan Suggestions

Presenting Your Business Plan

Business Plan and Venture Competitions

Honest Tea Business Plan

Unit 1 Entrepreneurial Pathways: SPANX Idea to Entrepreneurial Opportunity

## **UNIT 2 Who Are Your Customers?**

Chapter 5 Creating Business from Opportunity

Apple and the Personal Computer

Business Definition

What Sort of Organization Do You Want?

Your Company's Core Values



# **Table of Contents**

Your Company's Mission Is to Satisfy Customers  
Your Company's Vision Is the Broader Perspective  
Your Company's Culture Defines the Work Environment  
The Decision Process

## **Your Competitive Advantage**

Find Your Competitive Advantage by Determining What Consumers Need and Want  
You Have Unique Knowledge of Your Market  
The Six Factors of Competitive Advantage  
Is Your Competitive Advantage Strong Enough?  
Checking Out the Competition

## **The Most Chocolate Cake Company**

Competitive Strategy: Business Definition and Competitive Advantage

## **Feasibility Revisited: The Economics of One Unit as a Litmus Test**

Defining the Unit of Sale  
Cost of Goods Sold and Gross Profit  
Your Business and the Economics of One Unit  
The Cost of Direct Labor in the EOUA Example  
Hiring Others to Make the Unit of Sale  
Going for Volume

## **Chapter 6 Exploring Your Market**

### **Markets and Marketing Defined**

A Business That Markets versus a Market-Driven Business

### **Market and Marketing Research Support Success**

Research Your Market Before You Open Your Business  
Types and Methods of Research  
Getting Information Directly from the Source: Primary Research  
Getting Information Indirectly: Secondary Research

### **Market Research Helps You Know Your Customer**

Customer Research  
Industry Research: The 50,000-Foot Perspective  
Make Market Research an Integral Part of Your Business

### **How Customers Decide to Buy**

Owning a Perception in the Customer's Mind  
Features Create Benefits  
Home Depot: Teaching Customers So They Will Return

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

Successful Segmenting: The Body Shop  
Applying Market Segmentation Methods  
The Product Life Cycle  
Is Your Market Saturated?

### **Market Positioning: Drive Home Your Competitive Advantage**

# Table of Contents

Developing a Marketing Plan

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

## UNIT 3 Integrated Marketing

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

The Four Marketing Factors

Product: What Are You Selling?

Create Your Total Product or Service Concept

Focus Your Brand

Ford's Costly Failure: The Edsel

Ford's Focus on Success: The Mustang

How to Build Your Brand

Price: What It Says about Your Product

Place: Location, Location, Location!

Promotion: Advertising + Publicity

The Fifth P: Philanthropy

Cause-Related Marketing

Gaining Goodwill

Not-for-Profit Organizations

Teach for America and Upromise

What Entrepreneurs Have Built

You Have Something to Contribute

Developing a Marketing Plan

Marketing Analysis

Marketing as a Fixed Cost

Calculate Your Breakeven Point

### Chapter 8 Pricing and Credit Strategies

Pricing: Image, Value, and Competition Together

Strategies and Tactics for Effective Pricing

Pricing Varies by the Type of Firm

Pricing Techniques for Manufacturers

Pricing Techniques for Wholesalers

Pricing Techniques for Retailers

Keystoning The Retailers Rule of Thumb

Pricing Techniques for Service Businesses

Pricing Principles

Extending Credit to Customers

The Costs and Benefits of Credit

Types of Credit

# **Table of Contents**

Credits Impact on Pricing

## **Managing the Credit Process**

Sources of Credit Information

Aging of Receivables

Credit Regulation

Discounts, Incentives, and Other Price Adjustments

## **Chapter 9 Integrated Marketing Communications**

### **Use Integrated Marketing Communications for Success**

Reinforce the Company's Unique Selling Proposition

### **Promotional Planning**

Create a Promotional Strategy Using Promotions Opportunity Analysis

Determine a Promotional Budget

### **The Advertising Advantage**

Advertising Agencies and Freelancers

Types of Advertising

Media Planning and Buying: Focus on Your Customer

The Media

Broadcast Media

Print Media

Outdoor Advertising (Out-of-Home Advertising)

Advertising Measurement: Beyond Reach and Frequency

Marketing Materials Should Reinforce Your Competitive Advantage

Collateral Materials: Print and Multimedia

### **Sales-Promotion Solutions**

When to Use Promotional Tools

Advertising Specialties

Trade Show Exhibits

Mall Carts or Kiosks

### **Alternative Marketing**

Other Media Venues

### **Database and Direct-Response Marketing**

Data Collection, Coding, and Mining

Marketing Communications Driven by Databases

### **E-Active Marketing**

### **Publicity Potential**

Generating Publicity

Telling the Story

Sample Press Release

Follow Up a Press Release

Public Relations



# **Table of Contents**

## **Chapter 10 Marketing Globally**

### **Reasons to Market Globally**

- Market Expansion
- Access to Resources
- Cost Reduction
- Location-Specific Advantages
- Improving Quality Levels

### **Strategy Options for Global Ventures**

- Importing
- Exporting
- Strategic Alliances
- International Licensing
- International Franchising
- International Facilities

### **Challenges to International Trade**

- Economic Risk
- Political Risk
- Organizational Capacity
- Legal and Regulatory Barriers
- Cultural and Ethnic Considerations

### **Support for Global Ventures**

- Market Research, Analysis, Planning, and Readiness
- Customer and Partner Identification and Relationship Building
- Financing

### **Trade Agreements Influence Global Marketing**

## **Chapter 11 Smart Selling and Effective Customer Service**

### **Selling Skills Are Essential to Business Success**

- Selling Is a Great Source of Market Research
- The Essence of Selling Is Teaching
- The Principles of Selling

### **The Sales Call**

- Electronic Mail, Blogs, and Social Networks
- Prequalify Your Sales Calls
- Focus on the Customer
- The Eight-Step Sales Call
- Three Call Behaviors of Successful Salespeople
- Analyze Your Sales Calls to Become a Star Salesperson
- Turning Objections into Advantages
- Use Technology to Sell

### **Successful Businesses Need Customers Who Return**

# **Table of Contents**

Customer Service Is Keeping Customers Happy

The Costs of Losing a Customer

Customer Complaints Are Valuable

## **Customer Relationship Management Systems**

Why Does CRM Matter?

Components of CRM for the Small Business

How Technology Supports CRM

## **Unit 3 Integrated Marketing: Making an Impact for Entrepreneurs**

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

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

What Does It Cost to Operate a Business?

#### **Start-Up Investment**

Brainstorm to Avoid Start-Up Surprises

Keep a Reserve Equal to One-Half the Start-Up Investment

Predict the Payback Period

Estimate Value

Fixed and Variable Costs: Essential Building Blocks

#### **Calculating Critical Costs**

Calculating Total Gross Profit (Contribution Margin)

Calculating EOU When You Sell Multiple Products

Fixed Operating Costs

Fixed Operating Costs Can Change Over Time

Allocate Fixed Operating Costs Where Possible

The Dangers of Fixed Costs

Using Accounting Records to Track Fixed and Variable Costs

Three Reasons to Keep Good Records Every Day

Cash versus Accrual Accounting Methods

Recognizing Categories of Costs

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

Scorecards for the Entrepreneur: What Do Financial Statements Show?

#### **Income Statements: Showing Profit and Loss Over Time**

Parts of an Income Statement

A Basic Income Statement

The Double Bottom Line

An Income Statement for a More Complex Business

#### **The Balance Sheet: A Snapshot of Assets, Liabilities, and Equity at a Point in Time**

Short- and Long-Term Assets

Current and Long-Term Liabilities

The Balance Sheet Equation

The Balance Sheet Shows Assets and Liabilities Obtained through Financing

# **Table of Contents**

The Balance Sheet Shows How a Business Is Financed

Analyzing a Balance Sheet

Depreciation

Financial Ratio Analysis: What Is It and What Does It Mean to You?

Income Statement Ratios

Balance-Sheet Analysis

## **Chapter 14 Cash Flow and Taxes**

Cash Flow: The Lifeblood of a Business

The Income Statement Does Not Show Available Cash

Rules to Keep Cash Flowing

Noncash Expenses Can Distort the Financial Picture

The Working Capital Cycle

The Cyclical and Seasonal Nature of Cash Flow

Reading a Cash Flow Statement

The Cash Flow Equation

Forecasting Cash Flow: The Cash Budget

Creating a Healthy Cash Flow

Managing Inventory to Manage Cash

Managing Receivables to Manage Cash

The Cash Effects of Accounts Receivable

The Life Cycle of Accounts Receivable

The Financing of Accounts Receivable

Managing Accounts Payable to Manage Cash

Negotiating Payment

Timing Payables

Capital Budgeting and Cash Flow

The Burn Rate

The Value of Money Changes Over Time

The Future Value of Money

The Present Value of Money

Taxes

Cash Flow and Taxes

Filing Tax Returns

Collecting Sales Tax

Tax Issues for Different Legal Structures

Make Tax Time Easier by Keeping Good Records

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

Going It Alone versus Securing Financing

How Often Do Small Businesses Really Fail?

What Is the Best Type of Financing for You and Your Business?

# Table of Contents

Gifts and Grants

Debt Financing

Debt Financing: Pros and Cons

Equity Financing

Equity Financing: Pros and Cons

Where and How to Find Capital That Works for You

Having an Excellent Business Plan Goes a Long Way

How Capital Sources Read Your Business Plan

Family and Friends

Financial Institutions and Dimensions of Credit

Community Development Financial Institutions (CDFIs)

Venture Capitalists

Angels

Insurance Companies

Vendor Financing

Federally Supported Investment Companies

Financing for Rural/Agricultural Businesses

Self-Funding: Bootstrap Financing

Accessing Sources Through Online Networking

Investors Want Their Money to Grow: Can You Make It Happen?

How Stocks Work

How Bonds Work

Unit 4 Show Me the Money: Finding, Securing, and Managing It  
Lees Ice Cream

## UNIT 5 Operating a Small Business Effectively

### Chapter 16 Addressing Legal Issues and Managing Risk

Business Legal Structures

Sole Proprietorship

Partnership

Corporation

Tips for Entrepreneurs Who Want to Start a Nonprofit Organization

Contracts: The Building Blocks of Business

Working with an Attorney

Drafting a Contract

A Successful Contract Should Achieve the Four As

Letter of Agreement

Breach of Contract

Small Claims Court

Arbitration

A Contract Is No Substitute for Trust

# **Table of Contents**

The Uniform Commercial Code (UCC)

The Law of Agency

Bankruptcy

Protecting Intangible Assets: Intellectual Property

Trademarks and Service Marks

Copyright

Electronic Rights

Patents

Protecting Tangible Assets: Risk Management

Insurance Protects Your Business from Disaster

Basic Coverage for Small Business

How Insurance Companies Make Money

Protect Your Computer and Data

Disaster Recovery Plans

Licenses, Permits, and Certificates

## **Chapter 17 Operating for Success**

Operations Permit Businesses to Deliver on Their Promises

The Production-Distribution Chain

Supply Chain Management

Finding Suppliers

Managing Inventory

Creating a Purchasing Plan

Managing the Chain: Analyzing and Selecting Vendors

Legal Considerations

The Idea-To-Product Process

Why Manufacturing Is Unique

Job Shops

Manufacturing Tips

Just-in-Time Manufacturing

Product Design and Costs

Making versus Buying

Facilities Location and Design

Defining Quality: It Is a Matter of Market Positioning

Profits Follow Quality

Organization-Wide Quality Initiatives

Benchmarking

ISO 9000

Six Sigma

Total Quality Management

Malcolm Baldrige Award

# **Table of Contents**

## Using Technology to Your Advantage

- Computer Access Is Essential
- Capture the Potential of the Telephone
- Identify Market-Specific Software and Technology
- Electronic Storefront (Web Site)

## Chapter 18 Location, Facilities, and Layout

- The Importance of Physical Location
- Key Factors in Deciding on a Location
- Different Types of Businesses Have Different Location Needs
  - Options and Criteria for Manufacturing Facilities
  - Options and Criteria for Wholesale Businesses
  - Options and Criteria for Retail Businesses
  - Options and Criteria for Service and Professional Businesses
- Evaluating Location Alternatives
- Facilities Design and Layout
- Special Considerations for Home-Based Businesses
- Special Considerations for Web-Based Businesses

## Chapter 19 Human Resources and Management

### Business Management: Building a Team

- What Do Managers Do?

### Adding Employees to Your Business

- Growing Your Team
- Creating and Managing Organizational Culture
- Determining Organizational Structure
- Getting the Best Out of Your Employees
- Communicating Effectively

### Human Resources Fundamentals

- Compensation and Payroll
- Benefits
- Organizational Development
- Education and Development
- Labor Law and HR Compliance
- Performance Management
- Human Resources Strategy
- Firing and Laying Off Employees

## Unit 5 Operating a Small Business Effectively: ONLC Training CentersVirtual IT

### Training in a Classroom

## UNIT 6 Leadership, Ethics, and Exits

### Chapter 20 Leadership and Ethical Practices



# **Table of Contents**

## **The Entrepreneur as Leader**

- Leadership Styles That Work
- How Entrepreneurs Pay Themselves
- Manage Your Time Wisely

## **Ethical Leadership and Ethical Organizations**

- An Ethical Perspective
- Establishing Ethical Standards
- Corporate Ethical Scandals
- Integrity and Entrepreneurial Opportunities
- What Is Integrity?
- Doing the Right Thing in Addition to Doing Things Right
- Balancing the Needs of Owners, Customers, and Employees
- Complying with the Law

## **Social Responsibility and Ethics**

- Leading with Integrity and Examples
- Encourage Your Employees to Be Socially Responsible

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

### **What Do You Want from Your Business?**

- Continuing the Business for the Family
- Growth through Diversification

### **Growth through Licensing and Franchising**

- Focus Your Brand
- When Licensing Can Be Effective
- Franchising Revisited from the Franchisor Perspective
- How a McDonalds Franchise Works
- Do Your Research before You Franchise

### **Harvesting and Exiting Options**

- When to Harvest Your Business
- How to Value a Business
- The Science of Valuation

### **Creating Wealth by Selling a Profitable Business**

- Harvesting Options

### **Exit Strategy Options**

- Investors Will Care about Your Exit Strategy

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

## **Appendix 1 Sample Student Business Plan University Parent**

## **Appendix 2 BizBuilder Business Plan**

## **Appendix 3 Resources for Entrepreneurs**

## **Appendix 4 Useful Formulas and Equations**

# **Table of Contents**

Glossary

Index