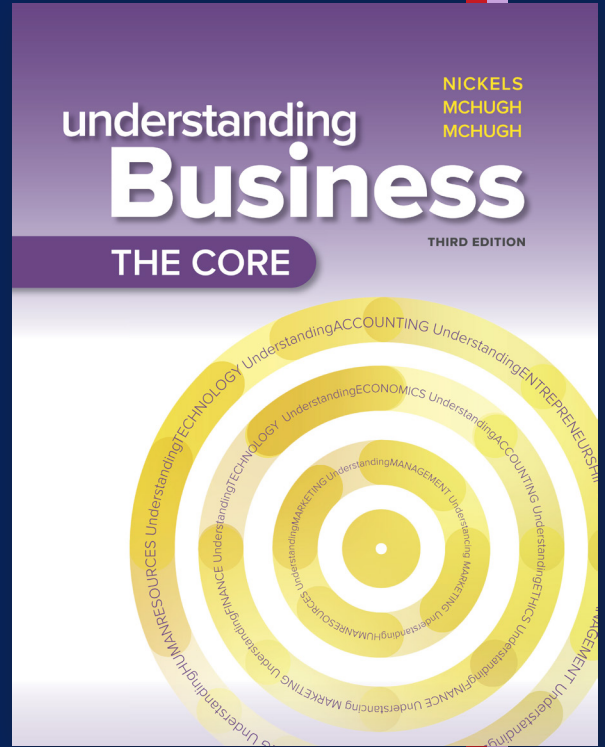




connect[®]

Understanding Business: The Core, 3e

Nickels | McHugh | McHugh



Welcome to the 3rd Edition of *Understanding Business: The Core!*

Decades ago, there was a popular program called “You Asked for It.” Viewers sent in what they wanted to see and producers gave them what they asked for. As we worked with our loyal *Understanding Business* family on the 3rd edition of *The Core*, we asked what you wanted and then did our best to give it to you. The 3rd edition is the result of your collaboration with us. We thank you for helping us create a text and package even stronger than it was before.

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understanding
Business
THE CORE
THIRD EDITION
NICKELS
MCHUGH
MCHUGH

Meet our Authors!
Understanding Business
The Core 3e

Jim McHugh Susan McHugh

Click below to watch a video for the authors:
[Understanding Business, The Core 3e](#)

A Letter from the Author Team:

As we worked to develop *Understanding Business: The Core*, we asked our loyal Understanding Business family what you wanted in a shorter version of our market-leading text. We listened to what you said and did our best to create it. According to users, we must have hit the mark. Instructors told us that the organization and content of the 16 chapters fully meet the course's objectives. **OUR COMMITMENT CONTINUED** as we developed the 3rd edition. We asked what you wanted in the new edition and, again, did our best to give it to you. We thank you for helping us create a text and package even stronger than it was before.

New Edition Highlights:

- *Understanding Business: The Core*, 3rd edition has been revised to include the latest trends and issues in business.
- Discussions on how the COVID-19 pandemic has impacted business were integrated throughout the text.
- Nearly all of the chapter-opening profiles and Social Media, Small Business, Ethics, Change, and Global boxes were replaced with current examples that students either know or will find interesting in getting to know.
- **SIXTEEN** new video cases were created for the text plus additional video cases are available in Connect!
- Chapter 13 was enhanced with discussions of current technologies that have impacted business, including 5G, AI, NFTs, blockchain, and the metaverse.

CONTINUOUS COVERAGE OF ISSUES AFFECTING ALL BUSINESS (SERVICE, MANUFACTURING, PROFIT AND NON-PROFIT)

- Maintaining currency is a crucial requirement to ensure course relevancy. To meet this goal, the *Understanding Business* Blog at understandingbiz.com is updated 2-3 times a week with article abstracts including discussion questions and links to short video clips.

SUPPLEMENTAL INSTRUCTIONAL MATERIALS THAT ARE ACCURATE AND EASY-TO-USE

- No supplemental materials are as market responsive, easy-to-use, tightly aligned and fully integrated as those in *Understanding Business: The Core* 3rd edition. In addition to the fully reviewed and updated instructor supplements, content comes to life through the power of McGraw Hill's Connect.

We are eager to show off the new edition and, of course, we look forward to hearing how you and your students like it. As always, we value our relationship with our fellow instructors who share with us their opinions, input, and advice, it's from this collegial cornerstone that the 3rd edition was created. Together, we'll continue to build the best teaching and learning system to help your students succeed!

Bill Nickels | Jim McHugh | Susan McHugh

Chapter-by-Chapter Changes

Chapter 1: Exploring the Business Environment and Economics

Additions:

- Getting to Know Tristan Walker, of Walker and Company
- Name That Company
- Adapting to Change: Creating Sustainability through a Circular Economy
- Video Case 2: Poshmark: Building a Shopping Community of People

Revisions:

- Statistical data and examples were updated throughout the chapter to reflect current information, particularly in reference to the effects of the Covid-19 pandemic and war in Ukraine (integrated throughout the entire text).

Deletions:

- Box: Adapting to Change
- Kiva Video Case

Chapter 2: Doing Business in Global Markets

Additions:

- • Getting to Know Ramon L. Laguarta, CEO of PepsiCo
- Name That Company
- Connecting Through Social Media: Global Consumers Increasingly Listen to Influencers
- Subsection: The United States–Mexico–Canada Agreement (USMCA)
- Video Case: Mary Kay: Spreading Beauty Around the Globe

Revisions:

- Statistical data and examples were updated throughout the chapter to reflect current information.

Deletions:

- Box: Connecting Through Social Media
- Domino's Video Case

Chapter 3: Demanding Ethical and Socially Responsible Behavior

Additions:

- Getting to Know Matt Damon and Gary White, Cofounders of Water.org
- Name That Company
- Connecting Through Social Media: Sending Support on Social Media Can Backfire
- Video Case 2: Best Buy Helps Save the Planet

Revisions:

- Statistical data and examples were updated throughout the chapter to reflect current information.

Deletions:

- Box: Connecting Through Social Media

Chapter 4: How to Form a Business

Additions:

- Getting to Know Alli Webb, Founder of Drybar
- Name That Company
- Adapting to Change: How B Corps Help Society While Earning Profits
- Spotlight on Small Business: Franchising a Different Form of Fun

Revisions:

- Statistical data and examples were updated throughout the chapter to reflect current information.

Deletions:

- Boxes: Adapting to Change, Spotlight on Small Business

Chapter 5: Entrepreneurship and Starting a Small Business

Additions:

- Getting to Know Joel Clark, Cofounder & CEO of Kodiak Cakes
- Name That Company
- Spotlight on Small Business: Successful Student Start-ups
- Adapting to Change: Small Businesses Struggle to Fight Fakes on Amazon

Revisions:

- Statistical data and examples were updated throughout the chapter to reflect current information.

Deletions:

- Box: Spotlight on Small Business

Chapter 6: Management and Leadership

Additions:

- Getting to Know Angela F. Williams, CEO of United Way Worldwide
- Name That Company
- Adapting to Change: Does AI Mean the End of Managers?
- Adapting to Change: Calling It Quits During the Great Resignation

Revisions:

- Statistical data and examples were updated throughout the chapter to reflect current information.

Deletions:

- Boxed: Adapting to Change, Connecting Through Social Media

Chapter 7: Structuring Organizations for Today's Challenges

Additions:

- Getting to Know Claudia San Pedro, President of Sonic Drive-In
- Name That Company
- Adapting to Change: Balancing Work and Life in the Zoom Age
- Video Case 2: Zoom Builds a Culture of Caring

Revisions:

- Statistical data and examples were updated throughout the chapter to reflect current information.

Deletions:

- Box: Adapting to Change, Connecting Through Social Media

Chapter 8: Production and Operations Management

Additions:

- Name That Company
- Reaching Beyond Our Borders: Bats, Bombs, and Regulations Stalled Tesla's German "Gigafactory"
- Adapting to Change: Flippy Stakes Its Claim in the Kitchen

Revisions:

- Statistical data and examples were updated throughout the chapter to reflect current information.

Deletions:

- Box: Adapting to Change

Chapter 9: Motivating Employees

Additions:

- Getting to Know Lauren Serota, Head of Talent at Patagonia
- Name That Company
- Spotlight on Small Business: Improving Motivation to Combat the Great Resignation
- Adapting to Change: Evaluating Employees with AI

Revisions:

- Statistical data and examples were updated throughout the chapter to reflect current information.

Deletions:

- Boxes: Adapting to Change, Connecting Through Social Media

Chapter 10: Human Resource Management: Finding and Keeping the Best Employees

Additions:

- Getting to Know Cynthia Marshall, CEO of the Dallas Mavericks
- Name That Company
- Connecting Through Social Media: Stay Professional Online and Avoid Awkward Interviews
- Video Case 1: Hiring and Developing Employees at Enterprise
- Video Case 2: Embracing Diversity and Inclusion at Adobe

Revisions:

- Statistical data and examples were updated throughout the chapter to reflect current information. In addition: Reaching Beyond Our Borders: Staying in Touch with a Global Workforce

Deletions:

- Box: Connecting Through Social Media
- Hilton and Freeman videos were moved out of the text into Connect

Chapter 11: Marketing: Helping Buyers Buy

Additions:

- Getting to Know Daniel Lubetzky, Founder of KIND
- Name That Company
- Adapting to Change: How the Pandemic Reshaped Digital Marketing
- Spotlight on Small Business: Making Everything Made-to-Order
- Connecting Through Social Media: Showcasing Nike's Customized Creations Online
- Putting Principles to Work: Customizing M&Ms
- Video Case 2: Bombas: Putting Your Best Foot Forward

Revisions:

- Statistical data and examples were updated throughout the chapter to reflect current information.

Deletions:

- Boxes: Connecting Through Social Media, Spotlight on Small Business
- Putting Principles to Work

Chapter 12: Managing the Marketing Mix: Product, Price, Place, and Promotion

Additions:

- Getting to Know Katrina Lake, Founder of Stitch Fix
- Name That Company
- Making Ethical Decisions: How Food Labels Can Mislead Consumers
- Reaching Beyond Our Borders: Branding -The Name Game
- Connecting Through Social Media: The Unpredictable Popularity of Viral TikTok Products
- Putting Principles to Work: Identifying Online Shopping Scams
- Video Case 1: Developing an Electric, Head-Turning Mustang
- Video Case 2: Minnesota Lynx
- Video Case 3: Chipotle (Connect only)
- Video Case 4: Tuft & Needle (Connect only)

Revisions:

- Statistical data and examples were updated throughout the chapter to reflect current information.

Deletions:

- Boxes: Making Ethical Decisions, Reaching Beyond Our Borders, Connecting Through Social Media
- Putting Principles to Work
- Domino's and Zappo's videos

Chapter 13: Using Technology to Manage Information

Additions:

- Getting to Know Jim Kavanaugh, CEO of World Wide Technology
- Name That Company
- Subsections:
 - 5G
 - Artificial Intelligence Plus 5G
 - Immersive Internet and the Metaverse
 - Web 3.0 – Moving Toward Decentralization
- Adapting to Change: NFTs Upend the Art Market
- Putting Principles to Work: Distinguishing between good and bad sources of information
- Video Case 2: Workhuman

Revisions:

- Statistical data and examples were updated throughout the chapter to reflect current information.
- The section The Heart of Knowledge Management: The Internet was reorganized, updated, and expanded with the subsections listed above.

- The section Networks and Cloud Computing was expanded with the addition of discussions about LAN, WAN, and cloud networking.

Deletions:

- Box: Adapting to Change
- Putting Principles to Work

Chapter 14: Understanding Accounting and Financial Information

Additions:

- Getting to Know Sheneya Wilson, Founder and CEO of Fola Financial
- Name That Company

Revisions:

- Statistical data and examples were updated throughout the chapter to reflect current information.

Deletions: NA

Chapter 15: Financial Management

Additions:

- Getting to Know Amrita Ahuja, Chief Financial Officer of Block
- Name That Company
- Adapting to Change: Easy Online Loans Conceal High Hidden Costs
- Spotlight on Small Business: In the Arms of an Angel Investor

Revisions:

- Statistical data and examples were updated throughout the chapter to reflect current information.

Deletions:

- Boxes: Adapting to Change, Spotlight on Small Business

Chapter 16: Money, Financial Institutions, and the Federal Reserve

Additions:

- Name That Company
- Adapting to Change: Saying “See You” to the C-Note
- Reaching Beyond Our Borders: Paying the Bank to Hold Your Money
- Video Case: Understanding the Federal Reserve System

Revisions:

- Statistical data and examples were updated throughout the chapter to reflect current information.

Deletions:

- Boxes: Adapting to Change, Spotlight on Small Business, Reaching Beyond Our Borders
- Financial crisis video case

Asset Alignment with Bloom's Taxonomy

Connect Introduction to Business

We Take Students Higher

As a learning science company, we create content that supports higher order thinking skills. Within McGraw-Hill Connect, we tag content according to Blooms, difficulty, AACSB, learning objective and more! This allows you to filter, search, assign and report on the assessments you want to assign.

The chart below shows a few of the key assignable, digital assets available for Connect Introduction to Business aligned with Bloom's Taxonomy. Take your students higher by assigning a variety of application exercises, moving them from simple memorization to concept application.

	SmartBook® 2.0	iSeeit! Videos	Click and Drags	Video Cases/ Case Analyses	Manager's Hot Seat Videos	Application- Based Activities/ Mini Sims	Business Plan Prep Activities	Writing Assignment Plus
Higher Order Thinking Skills								
CREATE							✓	✓
EVALUATE						✓	✓	✓
ANALYZE				✓	✓	✓	✓	✓
APPLY			✓	✓	✓	✓	✓	✓
UNDERSTAND	✓	✓	✓	✓	✓	✓	✓	✓
Lower Order Thinking Skills	REMEMBER	✓	✓	✓	✓	✓	✓	✓

SmartBook 2.0

Adaptively aids students to study more efficiently by highlighting where in the chapter to focus, asking review questions and pointing them to resources until they understand.

iSeeit! Videos

Short, contemporary videos provide engaging, animated introductions to key course concepts. Perfect for launching lectures and assigning as pre- or post-lecture.

Video Cases & Case Analyses

Mini-cases and scenarios of real-world firms accompanied by questions that help students analyze and apply core business concepts.

Click and Drags

Click and Drag exercises challenge students to apply business concepts to a variety of scenarios critically thinking about concepts in the real world.

Manager's Hot Seat Videos

These videos put students in the manager's hot seat where they will use their critical thinking skills to apply the concepts they've learned to real managerial challenges.

Application-Based Activities/Mini Sims

These highly interactive, automatically graded exercises provide students a safe space to practice using problem-solving skills to apply their knowledge to realistic scenarios. Each scenario addresses key concepts and skills that students must use to work through and solve course-specific problems, resulting in improved critical thinking and relevant workplace skills.

Business Plan Prep Activities

These exercises use guided activities and examples to help students understand and differentiate the various elements of a business plan.

Writing Assignment Plus

McGraw-Hill's Writing Assignment Plus delivers a learning experience that helps students improve their written communication skills and conceptual understanding. Faculty can assign, monitor, grade, and provide feedback on writing projects efficiently. Built-in grammar and writing review helps students improve writing quality while an originality check helps students correct potential plagiarism before submission—helping students practice and develop important workplace skills of writing and critical thinking.



Introduction to Business Application-Based Activities

Included in McGraw Hill Connect

Bridge the gap between classroom theory and real-world application with Application-Based Activities that engage students and put them in the decision-making seat. Students practice their problem-solving and critical thinking skills as they immerse themselves in real-life business scenarios that require them to apply the course concepts they have learned. Each branching simulation is designed to take 10-20 minutes to complete.

Application-Based Activities available NOW within Connect:

- Accounting and Financial Ratios: Expanding the Vintage Lily
- Business Environment and Trade: The International Landscape
- Business Formation: Classic Cruisers
- Distribution: Distinctive Designs
- Economics: Acing the Interview
- Employee-Management Relations: Union Station
- Entrepreneurship: What's Your Bright Idea?
- Exploring Ethics: Labor Practices in Vietnam
- Finance and Banking: ButterStone Campground
- Fundamentals of Business: Study Abroad Trip
- Human Resource Management: Solving Employee Problems at Metal Labs
- International Trade: Expanding Dr. Tasty Donuts
- Management and Leadership: Job-Shadowing Project
- Market Growth Strategies: The Morning Grind
- Marketing Environment: JumCon Jumbo Controllers
- Money and Banking: Summer at the Fed
- Motivation: Enhancing Productivity at Falcon Propulsion
- Operational Decisions: Bump Up Your Bumper
- Organizational Structure: Accessing Authentic Brew
- Product and Price Strategies: Vending Ventures
- Recruiting and Selecting Employees: Virtual Visions
- Securities and Investing: Making Money to Move Out
- The 4 Ps of Marketing: Frondescence Food Truck
- The Economics of a Pandemic: The Market for N95 Masks

These Introduction to Business Application-Based Activities are available for the following titles:

- *Connect Master Introduction to Business*
- Ferrell/Hirt/Ferrell, *M: Business*
- Ferrell/Hirt/Ferrell, *Business Foundations*
- Nickels/McHugh/McHugh, *Understanding Business: The Core*
- Nickels/McHugh/McHugh, *Understanding Business*

Accounting and Financial Ratios: Expanding the Vintage Lily Use accounting knowledge of financial statements and financial ratios to help the Vintage Lily expand into a brick-and-mortar store.

Business Environment and Trade: The International Landscape Assume the role of an employee at Be-wiser, a health and beauty company that is hosting its annual manager's meeting in New York City. Interact with international colleagues and contribute to team discussions about trade and global expansion.

NEW

Business Formation: Classic Cruisers Select the right form of ownership that works best for your business type.

NEW

Distribution: Distinctive Designs Decide the best distribution strategy for your shirt business.

Economics: Acing the Interview Interview with two employees of the United States Department of Labor for a position as an economic analyst. Impress the interviewers by correctly answering questions about economic systems, the business cycle, and monetary and fiscal policy. Analyze economic data to determine the best answer to some of the interviewers' questions.

Employee-Management Relations: Union Station Learn about the issues that emerge between employees and management.

Entrepreneurship: What's Your Bright Idea?

Alongside a team of friends and former professors, become an entrepreneur. Determine which type of business to start, the appropriate form of ownership, and how to finance the business.

Exploring Ethics: Labor Practices in Vietnam

On a trip to Vietnam to visit a supplier, use ethical decision making to determine whether the firm is operating within legal and ethical frameworks. To uncover clues, strive to be an ethical decision maker with a high level of professionalism.

Finance and Banking: ButterStone Campground

Try to start a well-known campground franchise, ButterStone Campgrounds, by getting the necessary funding. Differentiate among types of forecasting and create a financing plan to impress the franchisor.

Fundamentals of Business: Study Abroad Trip

Select a destination to explore on the trip. Cover key terms and fundamentals of business to make the most of your adventure.

Human Resource Management: Solving Employee Problems at Metal Labs Apply your human resource knowledge to pinpoint the causes of some of the "people" issues for a small manufacturing company.

International Trade: Expanding Dr. Tasty Donuts

Use your knowledge of global trade to help sell the Dr. Tasty, a delicious ice cream-filled donut, in Asia.

Management and Leadership: Job-Shadowing

Project Visit several local businesses to quickly get a feel for different management and leadership styles.

Market Growth Strategies: The Morning Grind

Apply various strategies to grow your coffee shop's profit, which will allow you to hire another part-time employee.

Marketing Environment: JumCon Jumbo Controllers

Investigate what is causing of the decline in sales at JumCon.

Money and Banking: Summer at the Fed

Learn the strategies involved in the Fed's operations.

Motivation: Enhancing Productivity at Falcon

Propulsion Help your team overcome low motivation and productivity issues.

Operational Decisions: Bump Up Your Bumper

Make operational decisions to effectively and efficiently start an aftermarket automobile accessory business from inherited equipment. Alongside Gary and Asha, select the best location, facility layout, inventory system, and quality control certification for Bump Up Your Bumper.

Organizational Structure: Assessing Authentic Brew Join the Authentic Brew team to determine the best organizational structure to support continued growth. Correlate employee attitudes to organizational design issues and justify your decisions. Use professional communication along the way to impress your colleagues.

Product and Price Strategies: Vending Ventures

Decide how to grow the existing business. Determining the right products and price for the market is going to be crucial for your success.

NEW

Recruiting and Selecting Employees: Virtual Visions

Learn how to build your sales team.

Securities and Investing: Making Money to Move Out

Use your knowledge of securities and investing to grow your money, so you can move into a nice apartment after college.

The 4 Ps of Marketing: Frondescence Food

Truck Jump into an internship with a food truck entrepreneur to make critical marketing decisions. Identify which of the 4 Ps each decision affects and guide the marketing strategy to maximize sales.

The Economics of a Pandemic: The Market for N95 Masks

Help a medical supply company navigate the uncertain issues of supply and demand during a sudden coronavirus outbreak.

ABOUT THE AUTHORS



Bill Nickels is emeritus professor of business at the University of Maryland, College Park. He has over 30 years' experience teaching graduate and undergraduate business courses, including introduction to business, marketing, and promotion. He has won the Outstanding Teacher on Campus Award four times and was nominated for the award many other times. He received his MBA degree from Case Western Reserve University and his PhD from The Ohio State University. Bill has written a marketing communications text and two marketing principles texts in addition to many articles in business publications. He has taught many seminars to businesspeople on subjects such as power communications, marketing, nonbusiness marketing, and stress and life management. His son, Joel, is a professor of English at the University of Miami (Florida).

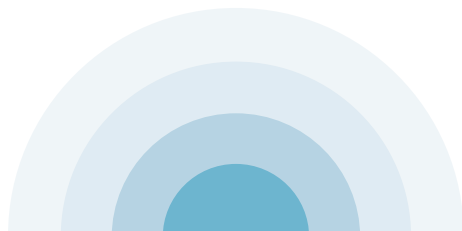
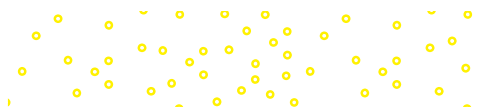


Jim McHugh holds an MBA degree from Lindenwood University and has had broad experience in education, business, and government. As chair of the Business and Economics Department of St. Louis Community College–Forest Park, Jim coordinated and directed the development of the business curriculum. In addition to teaching several sections of Introduction to Business each semester for nearly 30 years, Jim taught in the marketing and management areas at both the undergraduate and graduate levels. Jim enjoys conducting business seminars and consulting with small and large businesses. He is actively involved in the public-service sector and served as chief of staff to the St. Louis County Executive.



Susan McHugh is a learning specialist with extensive training and experience in adult learning and curriculum development. She holds an MEd degree from the University of Missouri and completed her coursework for a PhD in education administration with a specialty in adult learning theory. As a professional curriculum developer, she has directed numerous curriculum projects and educator training programs. She has worked in the public and private sectors as a consultant in training and employee development. While Jim and Susan treasure their participation in writing projects, their greatest accomplishment is their collaboration on their three children. Casey is carrying on the family's teaching tradition as an adjunct social work professor at Washington University and the founder of an incubator to help therapists start their own practices. Molly and Michael are carrying on the family writing tradition by contributing to the development of this text and several supplementary materials.

Photos: McGraw Hill

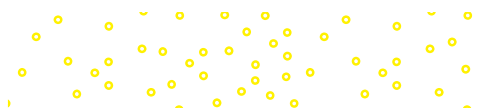


DEDICATION

To our families—Marsha, Joel, Carrie, Claire, Casey, Dan, Molly, Michael, Lindsay, Patrick, and Quinn. Thank you for making everything worth doing and giving us the support to do it well!

AND

To the team that made this edition possible, especially the instructors and students who gave us such valuable guidance as we developed the text and package.





THE GOLD ★★★★★ STANDARD

Preparing Future-Ready Learners

Congratulations. You've made an excellent selection. Welcome to the preeminent teaching and learning experience ever created for Introduction to Business classes.

Our experienced and diverse authors and long-tenured editorial team have created a product that meets the needs of nearly all classrooms, no matter the size, teaching modality, or learning objectives. The content is unmatched in depth, breadth, currency, and relevancy, and is presented in an extremely readable format for students with all learning styles. A wealth of technology solutions engages students, enriches learning, furthers understanding, and simplifies instructors' assessment processes. Course supplements tightly align with chapter concepts and enhance retention, making instructors of all experience levels Grade-A rock stars. Unparalleled support from our digital faculty consultants helps ensure you and your students benefit from the full experience of what is now the gold standard in Introduction to Business classes. Nickels/McHugh/McHugh, *Understanding Business: The Core*, 3e does more than teach—it prepares students to create real impact on the world.

1. THE GOLD STANDARD IN RELEVANCY AND CURRENCY

Real-world case studies—across nearly all industries and company sizes—ensure your students are apprised of the most current challenges businesspeople face today. From Brexit and ransomware to 3D printing and robo-advisors, you have access to numerous relevant samples that tie directly into chapter lessons. Plus with the option to take advantage of the ***From the News to the Classroom* blog**, you can enrich the learning experience with content that is updated multiple times each week and includes abstracts of relevant news stories, videos tied to chapter topics, and critical thinking questions that streamline your prep time and help create an ultra-current course.

2. THE GOLD STANDARD IN RESULTS-DRIVEN TECHNOLOGY

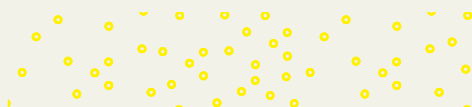
Interactive learning tools increase teaching effectiveness and learning efficiency by facilitating a stronger connection between the course material and the modern student.

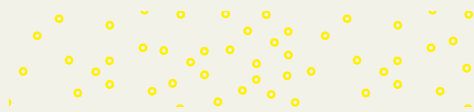
Where the Science of Learning Meets the Art of Teaching

McGraw Hill Connect is the leading online assignment and assessment solution that connects students with the tools and resources they need to achieve success. It also allows instructors to quickly and easily choose the content and assignments that will best emphasize the learning objectives they prefer to cover. The result is a customized course, rich with engaging presentations and activities that prepare students for the business world.

The First and Only Adaptive Reading Experience

SmartBook 2.0 creates a dynamic reading experience and personalizes content for each student, helping students master and retain foundational concepts. Tracking each student's progress, it automatically assesses comprehension levels and delivers the content required to reinforce topics needing more attention. This continuously adaptive learning path is proven to accelerate learning and strengthen memory recall, all while providing instructors a turnkey tool that ensures students stay on track.





Bridging the Gap between Concept and Application

Having knowledge is the first step—and understanding how to apply that knowledge is what determines a person’s success in the business world. That’s why we provide an array of application exercises that are as educational as they are engaging. *Chapter exercises* reinforce key models and processes. *Video Cases* allow students to observe and analyze key concepts as they are utilized by companies and organizations they know and recognize. *Case analyses* expose students to real-world scenarios and engage their critical-thinking and analysis skills. *Application-Based Activities* put students in the role of business professionals, allowing them to make decisions and learn from the results.

3. THE GOLD STANDARD IN TEACHING RESOURCES

Whether it’s your first or fortieth year teaching, you can benefit from a wealth of assessments and class-tested resources that simplify your evaluation process and enrich the learning experience.

Assessment Tools:

- **SmartBook 2.0** personalizes learning to individual student needs, continually adapting to pinpoint knowledge gaps and focus learning on topics that need the most attention. With SmartBook 2.0, learning is more productive and the guesswork is taken out of what to study in a no-fail environment. As a result, students are better prepared for class and coursework.
- **Application-Based Activities** are highly interactive, assignable exercises that provide students a safe space in which to apply the concepts they have learned to real-world, course-specific problems. Each Application-Based Activity involves the application of multiple concepts, allowing students to synthesize information and use critical-thinking skills to solve realistic scenarios.
- **Business Plan Prep Assignments** guide students in creating a basic business plan.
- **Test Bank** that is the largest and most accurate collection of questions on the market, including over 300 questions per chapter, makes testing student knowledge a simple and efficient process.
- **Chapter exercises** challenge students to demonstrate their knowledge of key concepts and terms by applying them to a variety of business-world scenarios.
- **Video assignments** help explain difficult concepts and show business concepts in action.

	SmartBook 2.0	iSeeIt! Videos	Video Cases	Case Analyses	Chapter Exercises	Manager's Hot Seat Videos	Application-Based Activities	Business Plan Prep
Higher Order Thinking Skills								
CREATE								✓
EVALUATE							✓	✓
ANALYZE				✓	✓	✓	✓	✓
APPLY			✓	✓	✓	✓	✓	✓
UNDERSTAND	✓	✓	✓	✓	✓	✓	✓	✓
Lower Order Thinking Skills								
REMEMBER	✓	✓	✓	✓	✓	✓	✓	✓





Additional Resources:

- **Instructor's manual** includes tools to improve retention and engagement, while helping save the instructor's time.
- **From the News to the Classroom blog** is updated multiple times each week, featuring abstracts of relevant news stories, video tied to chapter topics, and critical-thinking questions that streamline your prep time and help create an ultra-current course.
- **PowerPoint presentations** include discussion questions that improve student engagement.
- **Video library** with Video Teaching Guide includes:
 - **Company case videos** produced specifically to expound on chapter learning objectives via real-world business situations across a broad range of industries, sizes, and geographic locations, allowing students to contextualize the chapter's content.
 - **Manager's Hot Seat videos** offer short cases that show real business professionals confronting a variety of workplace challenges.
 - **iSeelt! animated video explanations** clarify some of the most important topics and can be accessed within the e-book.
 - **Current video clips** on the *From the News to the Classroom* blog tie to chapter topics and keep your classroom current.

4. THE GOLD STANDARD IN SUPPORT, SERVICE, AND SOLUTIONS

We want you to get the most out of our products, and we do everything possible to help provide your students an exceptional learning experience. From the first to the last day of the semester, we support you with:

- Learning technology representatives
- Digital faculty consultants
- Student ambassadors
- Implementation consultants
- Technical support
- Integration with your learning management system
- Content your way/customizable content/a robust library of cross-disciplinary content
- Student progress-tracking
- Accreditation and assurance of learning ready

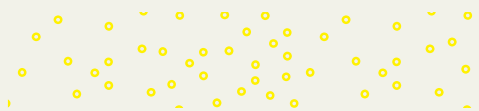
Our team of digital faculty consultants and extensive toolbox of support programs ensure you receive the full value of all this product has to offer.

THE BOTTOM LINE

The business world is constantly changing, and your classroom needs to keep up. With Nickels/McHugh/McHugh, *Understanding Business: The Core*, 3rd Edition, both you and your students can experience *the Gold Standard* in Introduction to Business classes.

CHANGES TO THE NEW EDITION

Current! Users of *Understanding Business* have always appreciated the currency of the material and the large number of examples from companies of all sizes and industries (e.g., service, manufacturing, nonprofit, and profit) in the United States and around the world. Accordingly, the latest business practices and other developments affecting business include:



- 
- Effects of the COVID-19 pandemic on the global economy and all facets of business (discussion integrated throughout the text)
 - Economic effects of the war in Ukraine
 - Global sanctions on Russia in response to the invasion of Ukraine
 - The Asia-Pacific trade agreement (Regional Comprehensive Economic Partnership)
 - United States–Mexico–Canada Agreement (USMCA)
 - Paycheck Protection Program (PPP)
 - Restaurant Revitalization Fund
 - Triple bottom line (profit, people, and planet)
 - Great Resignation
 - 2022 MLB lockout
 - 5G
 - Web 3.0—Moving toward decentralization
 - Immersive Internet and the Metaverse
 - Artificial intelligence plus 5G
 - NFTs
 - LAN
 - WAN
 - Blockchain
 - And much, much more

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Many dedicated educators and content experts made extraordinary contributions to the quality and utility of this teaching and learning package. For this edition, Diana Murphy and her team at Editors Inc. did a superb job of creating a useful and current Instructor's Manual and PowerPoint Presentations. Molly McHugh updated the Test Bank and contributed to the revised Instructor's Manual.

We also recognize the efforts of Tim Rogers of Ozarks Technical Community College, who contributed to the creation of Connect materials. We are grateful to our SmartBook team: in particular to Judy Bulin at Monroe Community College and the team at Editors Inc., who tirelessly worked to review and perfect the probes and feedback and respond to student queries. Thank you to Kelly Luchtman and her team at Lightfellow for the fabulous new videos they produced. Thank you to the Digital Faculty Consultants who have helped train and support so many of their fellow instructors in the Introduction to Business course, as well as assist them in successfully implementing Connect into their courses: Lisa Cherivtch, *Oakton Community College*; Chris Finnin, *Drexel University*; Stacy Martin, *Southwestern Illinois College*; Allison Smith, *KCTCS West Kentucky Community and Tech College*; and Tim Rogers, *Ozarks Technical Community College*. We would like to give special thanks to Tim Rogers for his dedication to this project, including the hard work he did revising the student study guide.

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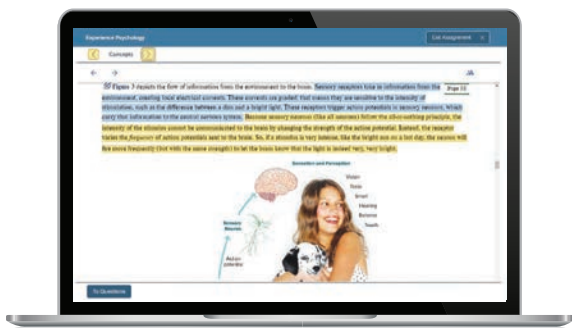
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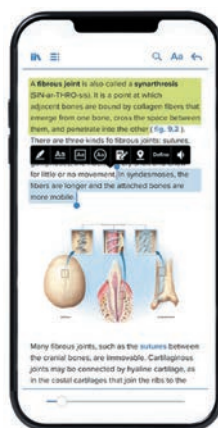
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“I really liked this app—it made it easy to study when you don't have your textbook in front of you.”

- Jordan Cunningham,
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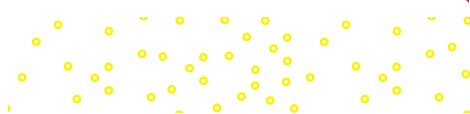


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REFLECTING THE DIVERSE WORLD AROUND US

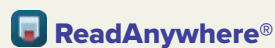
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- Refreshing and implementing inclusive content guidelines around topics including generalizations and stereotypes, gender, abilities/disabilities, race/ethnicity, sexual orientation, diversity of names, and age.
- Enhancing best practices in assessment creation to eliminate cultural, cognitive, and affective bias.
- Maintaining and continually updating a robust photo library of diverse images that reflect our student populations.
- Including more diverse voices in the development and review of our content.
- Strengthening art guidelines to improve accessibility by ensuring meaningful text and images are distinguishable and perceivable by users with limited color vision and moderately low vision.

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Implementing High-Quality Instruction and Assessment through Preconfigured Courseware

In consultation with the Online Learning Consortium (OLC) and our certified Faculty Consultants, McGraw Hill has created pre-configured courseware using OLC's quality scorecard to align with best practices in online course delivery. This turnkey courseware contains a combination of formative assessments, summative assessments, homework, and application activities, and can easily be customized to meet an individual instructor's needs and desired course outcomes. For more information, visit <https://www.mheducation.com/highered/olc>.



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Test Builder in Connect

Available within Connect, Test Builder is a cloud-based tool that enables instructors to format tests that can be printed, administered within a Learning Management System, or exported as a Word document. Test Builder offers a modern, streamlined interface for easy content configuration that matches course needs, without requiring a download.





Test Builder allows you to:

- Access all test bank content from a particular title.
- Easily pinpoint the most relevant content through robust filtering options.
- Manipulate the order of questions or scramble questions and/or answers.
- Pin questions to a specific location within a test.
- Determine your preferred treatment of algorithmic questions.
- Choose the layout and spacing.
- Add instructions and configure default settings.

Test Builder provides a secure interface for better protection of content and allows for just-in-time updates to flow directly into assessments.



Remote Proctoring & Browser-Locking Capabilities

Remote proctoring and browser-locking capabilities, hosted by Proctorio within Connect, provide control of the assessment environment by enabling security options and verifying the identity of the student.

Seamlessly integrated within Connect, these services allow instructors to control the assessment experience by verifying identification, restricting browser activity, and monitoring student actions.

Instant and detailed reporting gives instructors an at-a-glance view of potential academic integrity concerns, thereby avoiding personal bias and supporting evidence-based claims.





UNDERSTANDING

Business

The Core



THIRD EDITION

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UNIVERSITY OF MARYLAND

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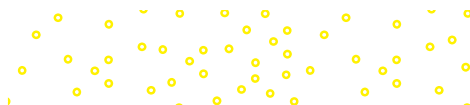
ST. LOUIS COMMUNITY COLLEGE AT FOREST PARK

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APPLIED LEARNING SYSTEMS



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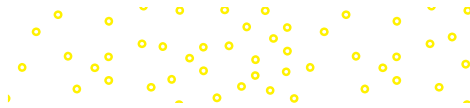
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5

Entrepreneurship and Starting a Small Business

LEARNING OBJECTIVES »

After you have read and studied this chapter, you should be able to

- LO 5-1** Explain why people take the risks of entrepreneurship; list the attributes of successful entrepreneurs; and describe entrepreneurial teams, intrapreneurs, and home- and web-based businesses.
- LO 5-2** Discuss the importance of small business to the American economy, and summarize the major causes of small-business failure.
- LO 5-3** Summarize ways to learn about how small businesses operate.
- LO 5-4** Analyze what it takes to start and run a small business.
- LO 5-5** Outline the advantages and disadvantages small businesses have in entering global markets.

GETTING TO KNOW

Joel Clark, Cofounder and CEO of Kodiak Cakes

Many entrepreneurs depend on their families for encouragement as well as investment as they work hard to launch a business. But few brands are as much of a family project as Kodiak Cakes. In the 1980s, Penny Clark created a whole-grain pancake mix that was a big hit with both of her kids. So she started packaging it in sandwich bags and sent her son Joel out into the neighborhood with a little red wagon full of mix to sell. Flash-forward a few decades later and now Joel Clark is CEO of Kodiak Cakes, a packaged foods brand that earns more than \$200 million in annual revenue.

Of course, it wasn't easy to take Kodiak from a hobby to a multimillion-dollar enterprise. Although Clark's mother sold the homemade pancake mix for only about a year, her dedication inspired her sons to pick up where she left off. In 1995, Joel's older brother Jon changed the recipe so that customers would need to add only water to create the perfect pancake batter. Joel helped out by selling the mix door-to-door to local retailers in between his studies at the University of Utah. After a couple of years running the business part-time, however, Jon wanted to move on to a career with more stability. He handed over the reins to Joel, who spent a frantic seven years operating the business on the side while he earned an MBA and worked a number of other jobs. Finally in 2004, Joel quit his side gigs and started focusing on Kodiak full-time.

By 2007 the company was earning \$800,000 in annual revenue, but it wasn't enough to make the business sustainable. "It was so many years of bootstrapping, and just trying to hang in there and keep it alive and keep it going," said Joel. "And we didn't really have any money to put into it, so it just kind of had to grow on its own." As he struggled to support both his family and the company at the same time, Joel stepped down as CEO and licensed the Kodiak brand to an outside firm. He landed an executive job at a health care company but still kept a close watch on his old business. After learning that the new operators raised prices, though, Joel exercised his right to cancel the deal within the first year and returned to the CEO position. "I had already spent 11 years on the business; I couldn't watch this," said Joel. "I jumped back into it—I was going to see it through to the end whether it worked or whether it failed."

But just because Joel was back in charge didn't mean that Kodiak's problems suddenly vanished. To stay afloat, he borrowed \$250,000 from his father, Richard, who had also been working with the company since Joel turned it into a full-time enterprise. Shortly after this investment, the company hired a chief operating officer named Cameron Smith, a young student at the University of Utah who reminded Joel of himself. Smith suggested that the company appear on the ABC show

Shark Tank as a way to solve Kodiak's cash flow problems. Joel had never heard of the program but soon spent hours binge-watching it as entrepreneurs tried to woo the show's panel of big-time investors. "Cameron and I watched a ton of episodes and would write down all the questions we ever heard, so we would role-play each other for hours and go over and over different questions and how we would answer them," said Joel. "And I think that was one of the best things we did, because we walked out onto the show feeling prepared."

Although they were more than ready to sell the sharks on their business, things didn't exactly go as planned once the cameras started rolling. The pair talked up the high-protein content of Kodiak's pancake mix and how it appealed to the nation's growing number of health-conscious consumers. The sharks wouldn't bite, though, dismissing their product as a "commodity" and offering only investments that came with enormous ownership stakes. Joel and Cameron rejected the sharks' deals and walked away that day empty-handed. But sales skyrocketed when their appearance aired in 2014 and they impressed viewers with their persuasive pitch. Within a year, sales rose from \$3.6 million to \$6.7 million. Now the company earns hundreds of millions of dollars selling more than 17 million boxes of pancake mix each year. And while Joel faced a lot of hardships along the way, he credits his entrepreneurial passion for seeing him through. "Sometimes the obstacles are great and logic would say, you should quit," said Joel. "But passion can overcome that. It has to."

Entrepreneurs like Joel Clark take big risks in order to reap big rewards. As you read about such risk takers in this chapter, maybe you'll be inspired to become an entrepreneur yourself.

Sources: Connie Chen, "Eight Rejected 'Shark Tank' Products That Are Worth Millions in 2021," *Insider*, insider.com, November 22, 2021; Sarah Berger, "This Family Business Was a 'Shark Tank' Reject—Now It's Bringing In \$100 Million a Year with the Best-Selling Pancake Mix at Target," *CNBC*, cnbc.com, August 8, 2018; Emily Canal, "This Startup Didn't Get a Deal on 'Shark Tank,' and That Helped Save It from Bankruptcy," *Inc.*, inc.com, April 3, 2018; Lee Benson, "Taking On the World, One Pancake at a Time," *Deseret News* (Salt Lake City), October 12, 2021; Kodiak Cakes, kodiakcakes.com, accessed January 2022.



Courtesy of Kodiak Cakes



THE FOUNDER OF THIS COMPANY opened a candy company in Chicago, but it failed. He tried again in New York and failed again. But he didn't give up, and today his company is one of the largest candy companies in the world. Name that company. (Find the answer in the chapter.)

Wacky grocer Jungle Jim Bonaminio may like to put on costumes and roller-skate through his Jungle Jim's International Market, but he's serious when it comes to his business. Instead of competing on price against big firms like Walmart, Jungle Jim's competes on product variety. For example, a case holding 1,500 kinds of hot sauce rests beneath an antique fire engine. Why do you think customers might remain loyal to Jungle Jim's?

The Job-Creating Power of Entrepreneurs in the United States

Today most new graduates know it's unlikely they will get a job in a large corporation and stay 30 years. For those who want more control over their destinies, working in or starting a small business makes sense. **Entrepreneurship** is accepting the risk of starting and running a business.

One of the major issues in the United States continues to be the need to create more jobs. You can begin to understand the job-creating power of entrepreneurs when you look at some of the great U.S. entrepreneurs from the past and the present. The history of the United States is the history of its entrepreneurs. Consider just a few of the many who have helped shape the U.S. economy:

- DuPont, which manufactures thousands of products under such brand names as Teflon and Lycra, was started in 1802 by French immigrant Éleuthère Irénée du Pont de Nemours. Some 18 shareholders provided \$36,000 in start-up money.
- Avon, the familiar beauty products retailer, started in 1886 with \$500 David McConnell borrowed from a friend.
- George Eastman launched photography giant Kodak in 1880 with a \$3,000 investment.
- Procter & Gamble, now a multinational marketer of household products, was formed in 1837 by William Procter, James Gamble, and a total of \$7,000 in capital.
- Ford Motor Company began with an investment of \$28,000 by Henry Ford and 11 associates.
- Amazon began with investments by founder Jeff Bezos's family and friends. Bezos's parents invested \$300,000, a huge portion of their retirement account. Today they are billionaires.

These stories have much in common. One or a couple of entrepreneurs had a good idea, borrowed some money from friends and family, and started a business. That business now employs thousands of people and helps the country prosper.

The United States has plenty of entrepreneurial talent. Names such as Mark Zuckerberg (Facebook), Michael Dell (Dell Inc.), Bill Gates (Microsoft), Howard



Jungle Jim's International Market



SPOTLIGHT ON SMALL BUSINESS

Successful Student Start-Ups

Although most people finish their education before jumping into their own businesses, some aspiring entrepreneurs dive right in while they're still in school. Here are just a few examples of young entrepreneurs who found success in their college years:

Seth Berkowitz baked big batches of cookies in his dorm room kitchen at University of Pennsylvania so he could criss-cross campus late into the night selling his wares for a tasty profit. He opened his first *Insomnia Cookies* store three years later, and by 2021 he had more than 200 locations operating nationwide. "When I started the company in my dorm room 18 years ago, never in my wildest dreams did I think I would open 200 stores," said Berkowitz.

Fatimah Hussein and Jamie Glover founded *ASIYA* in order to make a line of sports hijabs that Muslim women could wear for any athletic activity. Hussein came up with the idea at her local community center and went on to design prototype headscarves with help from the University of Minnesota.

Glover joined the venture while she was a graduate student at the Carlson School of Management so that *ASIYA* could reach communities outside of its home state.

Matt Czarnecki, Bennett Byerley, and André Monteiro started *Verb Energy* in their dorm kitchen at Yale University, where they wanted to make delicious snacks that could help them stay awake during long study sessions. After experimenting with about 127 recipes, they settled on a stable of core flavors that each contains a kick of organic green tea with as much caffeine as an espresso.

Austin Webb, Brac Webb, and Austin Lawrence developed a start-up called *RoBotany* at Carnegie Mellon University where they grew organic vegetables in indoor vertical farms. After incubating at the university, they rebranded as *Fifth Season* and



ASIYA Modest Activewear

started a new farm among a bunch of abandoned steel mills south of Pittsburgh. The company heavily depends on automation, artificial intelligence, and other high-tech elements in order to plant and harvest the best produce possible.

Sources: *Insomnia Cookies*, insomniacookies.com, accessed January 2022; Marlene Lang, "Insomnia Cookies Opens Its 200th Store in Exton," *Patch* (Tredyffrin-Easttown, PA), patch.com, June 24, 2021; A SIYA, asiyasport.com, accessed January 2022; Susan Davis and Angela Davis, "The Business of Hijabs," *MPR News*, mprnews.org, July 12, 2021; "Episode #111: Co-Founders of Verb Energy," *Our Future*, ourfuturehq.com, February 2021; *Fifth Season*, fifthseasonfresh.com, accessed January 2022; An-Li Herring, "Farming Is Grueling Work, but a Pittsburgh Startup Is Using Technology to Make It Easier," *90.5 WESA*, wesa.fm, December 13, 2021.

Schultz (Starbucks), Jack Dorsey (Twitter), and Chad Hurley and Steve Chen (YouTube) have become as familiar as those of the great entrepreneurs of the past. The **Spotlight on Small Business** box highlights several young entrepreneurs who started businesses while still in school.

LO 5-1 Explain why people take the risks of entrepreneurship; list the attributes of successful entrepreneurs; and describe entrepreneurial teams, intrapreneurs, and home- and web-based businesses.

Why People Take the Entrepreneurial Challenge

Taking the risks of starting a business can be scary and thrilling at the same time. One entrepreneur described it as almost like bungee jumping. You might be scared, but if you watch six other people do it and they survive, then you're more likely to do it yourself. Here are some reasons people are willing to take the entrepreneurial risk:¹

entrepreneurship

Accepting the risk of starting and running a business.

- *Opportunity.* The opportunity to share in the American Dream is a tremendous lure. Many people, including those new to this country, may not have the skills for today's complex organizations, but they do have the initiative and drive to work the long hours demanded by entrepreneurship. The same is true of many corporate managers who leave corporate life (by choice or after downsizing) to run businesses of their own. Others, including an increasing number of Millennials, women, minorities, older people, and people with disabilities, find that starting their own businesses offers them more opportunities than working for others. The massive layoffs and the need to maintain social distance during the COVID-19 pandemic prompted many people to start their own businesses rather than wait for former employers to hire them back. In fact, entrepreneurship increased over 24 percent during the pandemic.
- *Profit.* Profit is another important reason to become an entrepreneur. Bill Gates, who cofounded Microsoft, is one of the richest people not just in the United States but in the world.
- *Independence.* Many entrepreneurs simply do not enjoy working for someone else. They want to be the ones to make the decisions that lead to their success or failure. They want to be free to roam, create, work, and delegate.
- *Challenge.* Some people believe that entrepreneurs are excitement junkies who thrive on risk. Entrepreneurs take moderate, calculated risks; they don't just gamble. In general, though, entrepreneurs seek achievement more than power.

What Does It Take to Be an Entrepreneur?

Would you succeed as an entrepreneur? You can learn about the managerial and leadership skills needed to run a firm. However, you may not have the personality to assume the risks, take the initiative, create the vision, and rally others to follow your lead. Such personality traits are harder to learn or acquire than academic skills are. A list of entrepreneurial attributes to look for in yourself includes:²

- *Self-directed.* You should be self-disciplined and thoroughly comfortable being your own boss. You alone will be responsible for your success or failure.
- *Self-nurturing.* You must believe in your idea even when no one else does, and be able to replenish your own enthusiasm. When Walt Disney suggested the possibility of a full-length animated feature film, *Snow White*, the industry laughed. His personal commitment and enthusiasm caused the Bank of America to back his venture. The rest is history.
- *Action-oriented.* Great business ideas are not enough. Most important is a burning desire to realize, actualize, and build your dream into reality.
- *Highly energetic.* It's your business, and you must be emotionally, mentally, and physically able to work long and hard. Employees have weekends and vacations; entrepreneurs often work seven days a week and don't take vacations for years. Working 18-hour days in your own business can be exhausting, but most entrepreneurs think it is better than working long hours for someone else.
- *Tolerant of uncertainty.* Successful entrepreneurs take only calculated risks (if they can help it). Still, they must be able to take *some* risks. Remember, entrepreneurship is not for the squeamish or those bent on security. You can't be afraid to fail. Many well-known entrepreneurs failed several times before achieving success. The late football coach Vince Lombardi summarized the entrepreneurial philosophy when he said, "We didn't lose any games this season, we just ran out of time twice." New entrepreneurs must be prepared to run out of time a few times before they succeed.

Turning Your Passions and Problems into Opportunities

While many entrepreneurs' business ideas are inspired by their passions, many see business opportunities where others see only problems. For example, Celtel's founder Mo Ibrahim saw the opportunity to bring mobile phones to the over 1 billion people in Africa who had never even used a phone much less owned one, whereas large telecommunication companies saw only poor peasants and logistical hurdles. Celtel soon became Africa's largest cell phone provider. Ibrahim sold the company for \$3.4 billion.³

Most entrepreneurs don't get ideas for products and services from some flash of inspiration. The source of innovation is more like a *flashlight*. Imagine a search party walking in the dark, shining lights, looking around, asking questions, and looking some more. "That's how most creativity happens," says business author Dale Dauten. "Calling around, asking questions, saying 'What if?' till you get blisters on your tongue."

To look at problems and/or passions and see opportunities in them, ask yourself these questions: What do I want, but can never find? What product or service would improve my life? What really irritates me, and what product or service would help?

Keep in mind, however, that not all ideas are opportunities. If your idea doesn't meet anyone else's needs, the business won't succeed. You may have a business idea that is a good opportunity if:

- It fills customers' needs.
- You have the skills and resources to start a business.
- You can sell the product or service at a price customers are willing and able to pay—and still make a profit.
- You can get your product or service to customers before your window of opportunity closes (before competitors with similar solutions beat you to the marketplace).
- You can keep the business going.

If you'd like to take a survey to find out if you might have the entrepreneurial spirit in your blood, visit bdc.ca and search for "Entrepreneurial Potential Self-Assessment."⁴

Entrepreneurial Teams

An **entrepreneurial team** is a group of experienced people from different areas of business who join to form a managerial team with the skills to develop, make, and market a new product. A team may be better than an individual entrepreneur because team members can combine creative skills with production and marketing skills right from the start. Having a team also can ensure more cooperation and coordination later among functions in the business.

While Steve Jobs was the charismatic folk hero and visionary of Apple Computers, it was Steve Wozniak who invented the first personal computer model and Mike Markkula who offered business expertise and access to venture capital. The key to Apple's early success was that it was built around this "smart team" of entrepreneurs. The team wanted to combine the discipline of a big company with an environment in which people could feel they were participating in a successful venture. The trio of entrepreneurs recruited seasoned managers with similar desires. Everyone worked together to conceive, develop, and market products.⁵



Numbelievable

Kuda Biza and Bryan Janeczko founded Numbelievable Cookies in 2019 as a way to take a bite out of world hunger. For every dozen cookies that the company sells, it donates two meals to soup kitchens across the United States. Do you think more entrepreneurs should use their businesses to directly support charitable causes?

entrepreneurial team

A group of experienced people from different areas of business who join together to form a managerial team with the skills needed to develop, make, and market a new product.



When you come up with a winning idea, stick with it. That's certainly been the motto of 3M, the maker of Post-it Notes. The company encourages intrapreneurship among its employees by requiring them to devote at least 15 percent of their time to think about new products. How has this commitment to innovation paid off for 3M and its employees?

intrapreneurs

Creative people who work as entrepreneurs within corporations.

micropreneurs

Entrepreneurs willing to accept the risk of starting and managing the type of business that remains small, lets them do the kind of work they want to do, and offers them a balanced lifestyle.

Entrepreneurship within Firms

Entrepreneurship in a large organization is often reflected in the efforts and achievements of **intrapreneurs**, creative people who work as entrepreneurs within corporations. The idea is to use a company's existing resources—human, financial, and physical—to launch new products and generate new profits.

At 3M, which produces a wide array of products from adhesives like Scotch tape to nonwoven materials for industrial use, managers are expected to devote 15 percent of their work time to thinking up new products or services.⁶ You know those bright-colored Post-it Notes people use to write messages on just about everything? That product was developed by Art Fry, a 3M employee.⁷ He needed to mark the pages of his hymnal with something that wouldn't damage the book or fall out. He came up with the idea of the self-stick, repositionable paper slips. The labs at 3M produced a sample, but distributors were unimpressed, and market surveys were inconclusive. Nonetheless, 3M kept sending samples to office staff of top executives. Eventually, after a major sales and marketing program, the orders began pouring in, and Post-it Notes became a big winner. The company continues to update the product; making the notepads from recycled paper is one of many innovations. Post-it Notes have gone international as well—the notepads sent to Japan are long and narrow to accommodate vertical writing. You can even use Post-it Notes electronically—the Post-it Software Notes program and the Post-it app allow you to type messages onto brightly colored notes and store them on memo boards, embed them in documents, or send them through e-mail.⁸

Other examples of intrapreneurial ventures include Lockheed Martin's first U.S. fighter jet in 1943 and the Stealth fighter in 1991; Apple's Mac; Google's Gmail, Google News, and Google AdSense; General Motors's Saturn; 3M's Scotch Pop-Up Tape; and Sony's PlayStation.⁹

Micropreneurs and Home-Based Businesses

Not everyone who starts a business wants to grow a mammoth corporation. Some are interested in maintaining a balanced lifestyle while doing the kind of work they want to do. Such business owners are called **micropreneurs**. While other entrepreneurs are committed to the quest for growth, micropreneurs know they can be happy even if their companies never appear on a list of top-ranked businesses.

Many micropreneurs are home-based business owners. More than half of all small businesses are run from owners' homes.¹⁰ Micropreneurs include consultants, video producers, architects, and bookkeepers. Many with professional skills such as graphic design, writing, and translating have found that one way of starting a freelance business is through websites such as Upwork and Freelancer that link clients and freelancers.¹¹ The sites post job openings and client feedback and serve as secure intermediaries for clients' payments.

Many home-based businesses are owned by people combining career and family. Don't picture just moms with young children; nearly 60 percent are men.¹² Here are more reasons for the growth of home-based business:¹³

- Technology has leveled the competitive playing field, allowing home-based businesses to look and act as big as their corporate competitors. Fast broadband connections, smartphones, and other technologies are so affordable that setting up a business takes a much smaller initial investment than it once did.
- Corporate downsizing due to the COVID-19 pandemic and the need to social distance led many to venture out on their own. Meanwhile, the work of the downsized employees still needs to be done, and corporations are outsourcing much of it to smaller companies.

- Social attitudes have changed. Whereas home-based entrepreneurs used to be asked when they were going to get a “real” job, they are now likely to be asked for how-to-do-it advice.
- Newer tax laws have loosened restrictions on deducting expenses for home offices.

Working at home has its challenges, of course. Here are a few:¹⁴

- *Getting new customers.* Getting the word out can be difficult because you don’t have a retail storefront.
- *Managing time.* You save time by not commuting, but it takes self-discipline to use that time wisely.
- *Keeping work and family tasks separate.* It’s great to be able to throw a load of laundry in the washer in the middle of the workday if you need to, but you have to keep such distractions to a minimum. It also takes self-discipline to leave your work at the office if the office is at home.
- *Abiding by city ordinances.* Government ordinances restrict the types of businesses allowed in certain parts of the community and how much traffic a home-based business can attract to the neighborhood.
- *Managing risk.* Home-based entrepreneurs should review their homeowner’s insurance policy since not all policies cover business-related claims. Some even void the coverage if there is a business in the home.

Home-based entrepreneurs should focus on finding opportunity instead of accepting security, getting results instead of following routines, earning a profit instead of earning a paycheck, trying new ideas instead of avoiding mistakes, and creating a long-term vision instead of seeking a short-term payoff. Figure 5.1 lists ideas for potentially successful home-based businesses, and Figure 5.2 highlights clues for avoiding home-based business scams. You can find a wealth of online information about starting a home-based business at *Entrepreneur’s* website (entrepreneur.com).



Vladimir Vladimirov/Getty Images

Music teachers often operate independently and teach a limited number of pupils at any given time. Despite their small-scale businesses, music teachers can have a big impact on the artistic development of their clients. Can you see why music teachers could be considered micropreneurs?

Many businesses can be started at home. Listed below are businesses that have low start-up costs and don’t require an abundance of administrative tasks:

- Personal creations—artwork and handmade items that can be sold on sites such as Etsy, eBay, and Amazon.
- In-home services—tutoring, landscaping, snow shoveling, house cleaning, pet sitting, babysitting, web designing, personal training, home organizing, etc.
- Repair or skill-based services—tailoring, plumbing, home repairs, painting, etc.
- Consulting—advising businesses in areas in which you have an expertise such as technology, marketing, search engine optimization, or social media management.
- Resale—buying goods and reselling them (i.e., reselling items online that you buy in garage or estate sales).
- Shared-economy opportunities—Uber driver or Airbnb host.

Look for a business that meets these important criteria: (1) The job is something you truly enjoy doing; (2) you know enough to do the job well or you are willing to spend time learning it while you have another job; and (3) you can identify a market for your product or service.

FIGURE 5.1 POTENTIAL HOME-BASED BUSINESSES

Sources: Lesley Spencer Pyle, “Businesses You Can Start at Home,” *Entrepreneur*, entrepreneur.com, accessed May 2022; Mindy Lilyquist, “Home Businesses Ideas That Really Pay,” *The Balance*, March 17, 2021; “20 Business Ideas for Stay-at-Home Parents,” *Entrepreneur*, accessed May 2022; John Rampton, “50 Work-from-Home Jobs Paying as Much or a Lot More Than the Average American Salary,” *Entrepreneur*, entrepreneur.com, accessed May 2022.

FIGURE 5.2 WATCH OUT FOR SCAMS

You've probably seen many ads selling home-based businesses. You may have even received unsolicited e-mail messages touting the glory of particular work-at-home opportunities. Beware of work-at-home scams! Here are a few clues that tell you a home business opportunity is a scam:

1. The ad promises that you can earn hundreds or even thousands of dollars a week working at home.
2. No experience is needed.
3. You need to work only a few hours a week.
4. There are loads of CAPITAL LETTERS and exclamation points!!!!
5. You need to call a 900 number for more information.
6. You're asked to send in some money to receive a list of home-based business opportunities.
7. You're pressured to make a decision NOW!!!!

Do your homework before investing in a business opportunity. Call and ask for references. Contact the Better Business Bureau (bbb.org), county and state departments of consumer affairs, and the state attorney general's office. Conduct an Internet search and ask people in forums or on social networking sites if they've dealt with the company. Visit websites such as the Federal Trade Commission (consumer.ftc.gov) to find advice on specific online scams. Most important, don't pay a great deal of money for a business opportunity until you've talked to an attorney.



JGI/Tom Grill/Getty Images

Each year more than 2 million American couples get married. And for many of these soon-to-be newlyweds, TheKnot.com is an invaluable resource for planning the big day. From sharing gift registries to creating detailed schedules, the website helps ease the stress that inevitably comes with getting ready for a wedding. What does the site offer that other wedding planners don't?

Online Businesses

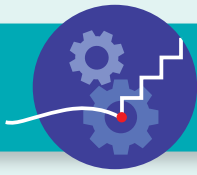
A multitude of small businesses sell everything online from staplers to refrigerator magnets to wedding dresses. In 2021, online retail sales in the United States reached over \$850 billion, or approximately 13.5 percent of all retail sales.¹⁵

Online businesses have to offer more than the same merchandise customers can buy at stores—they must offer unique products or services. For example, Marc Resnik started his online distribution company after waking up one morning laughing about his business idea. Now Throw Things.com makes money for him—he's shipped products to more than 44 countries. Although the company's offerings seem like a random collection of unrelated items, everything it sells can be thrown. You can buy

promotional products in the “Throw Your Name Around!” section, ventriloquist dummies in the “Throw Your Voice!” section, and sporting equipment in the “Things to Throw!” section. Stranger products include fake vomit (“Throw Up!”) and a \$3.50 certificate that says you wasted your money (“Throw Your Money Away!”). Resnik doesn't sell very many of those certificates, but he does sell more dummies than anyone else in the United States. About two-thirds of the company's revenue comes from the promotional products section, which allows customers to add logos to thousands of products. Why is Resnik's business so successful? As one frequent customer said, it's because of Resnik's exceptional service and quick turnaround time.¹⁶

An online business isn't always a fast road to success. It can sometimes be a shortcut to failure. Hundreds of high-flying sites crashed after promising to revolutionize the way we shop. That's the bad news. The good news is that you can learn from someone else's failure and spare yourself some pain. And, of course, you can learn from their successes as well.

One of the disadvantages of online businesses is that it is easy for copycats to find your successful products, copy them, and sell the imitations on other sites (particularly Amazon). The **Adapting to Change** box talks about how some online businesses fight these imposters in order to prevent lost revenue and to preserve their businesses' reputations.



ADAPTING TO **CHANGE**

Small Businesses Struggle to Fight Fakes on Amazon

As the world's largest online marketplace, Amazon is an essential platform for countless small businesses that want to reach as many consumers as possible. Not only are more than half of American households members of the company's Prime program, but the e-commerce giant also collects nearly 50 cents out of every dollar spent shopping online in the United States.

This enormous customer base makes Amazon impossible for many small businesses to ignore. At the same time, the online retailer also provides copycats with the perfect environment to thrive. Once a product becomes successful enough on Amazon, counterfeiters will often swoop in and sell knockoff versions through third-party vendors that are difficult to trace and shut down. That's what happened to Kevin Williams,

cofounder of a company that sells a specialized hose attachment called the Brush Hero. After enjoying a spike in sales following an appearance on ABC's *Shark Tank*, Williams noticed a similar uptick in the number of knockoff Brush Heroes on Amazon. Customers soon started to complain about these poor-quality fakes while the product's Amazon rating plummeted as well.

Williams eventually enlisted the services of a sourcing agent in China who discovered five factories making copycat Brush Heroes. He then began the laborious process of shutting down these operations through a combination of overseas legal wrangling and long phone calls with Amazon representatives. It was almost too much for the start-up's nine-person operation to bear. In fact, many

companies do not have the time or resources to take on counterfeiters as a whole. Instead, they can only react to each individual infraction through Project Zero, an Amazon service that allows sellers to delete knockoff product pages themselves. For entrepreneurs like Kevin Williams, however, they feel that Amazon should take more responsibility for fakes rather than placing the burden entirely on small-business owners.

Sources: Elizabeth Segran, "The Volume of the Problem Is Astonishing": Amazon's Battle against Fakes May Be Too Little, Too Late," *Fast Company*, fastcompany.com, May 17, 2021; Jeff Bercovici, "Small Businesses Say Amazon Has a Huge Counterfeiting Problem. This 'Shark Tank' Company Is Fighting Back," *Inc.*, inc.com, March/April 2019; Brendan Case, "Amazon, Third-Party Sellers Spur Fake Goods, Group Says," *Bloomberg*, bloomberg.com, October 13, 2021; Amazon Project Zero . brandservices.amazon.com, accessed January 2022; Brush Hero, brushhero.com, accessed January 2022.

Encouraging Entrepreneurship: What Government Can Do

Part of the Immigration Act passed by Congress in 1990 was intended to encourage more entrepreneurs to come to the United States. The act created a category of "investor visas" that allows 10,000 people to come to the United States each year if they invest at least \$1.8 million (or \$900,000 in high unemployment areas) in an enterprise that creates 10 full-time jobs.¹⁷

Another way to encourage entrepreneurship is **enterprise zones**, specific geographic areas to which governments attract private business investment by offering lower taxes and other government support. These are also sometimes called *empowerment zones* or *enterprise communities*. As part of the 2017 federal tax overhaul, the federal government identified nearly 9,000 opportunity zones in high-poverty areas across the country. Investors qualify for deferred and/or reduced taxes if they invest in companies or projects in these communities.¹⁸

The government could have a significant effect on entrepreneurship by offering tax breaks to businesses that make investments to create jobs. The Jumpstart Our Business Startups (JOBS) Act of 2012 was enacted in an effort to make it easier for small businesses to raise funds and hopefully create new jobs.¹⁹

States are becoming stronger supporters of entrepreneurs and are creating programs that invest directly in new businesses. Often, state commerce departments serve as clear- inghouses for such programs. States are also creating incubators and technology centers to reduce start-up capital needs. **Incubators** offer new businesses in the critical stage of early development low-cost offices with basic services such as accounting, legal advice, and secretarial help. According to a recent study conducted by the International Business Innovation

enterprise zones

Specific geographic areas to which governments try to attract private business investment by offering lower taxes and other government support.

incubators

Centers that offer new businesses low-cost offices with basic business services.



Philippe Petit/Païris Match/Getty Images

Incubators, such as this one in Paris, offer new businesses low-cost offices with basic business services such as accounting, legal advice, and secretarial help. Do you have such incubators in your area?

Association (InBIA), 87 percent of incubator graduates remain in business. Approximately one-third of all business incubators have ties to universities.²⁰ For example, at the Saint Louis University food incubator Salus Center Kitchen, women from a local shelter for victims of domestic abuse gather to make chicken pot pies that they sell to area stores and restaurants, and homeless men learn to make dog treats and food for Fresh Start Dog Food.²¹ To learn more about what incubators offer and to find links to incubators in your area, visit the InBIA's website (inbia.org).

A few states offer assistance to qualified candidates under the Self-Employment Assistance (SEA) program. The program allows participants to collect self-employment payments instead of regular unemployment checks while they build their businesses. Participants often get training and counseling as well. Small self-employment checks may not seem like much, but many business owners say they are enough to help them launch their companies without depleting savings to pay for living expenses until their businesses are strong enough to support them.²²

The government can also join with private entities to promote entrepreneurship. For example, Startup America was an initiative started in 2011 by the federal government in partnership with the Kauffman Foundation to “celebrate, inspire, and accelerate high-growth entrepreneurship throughout the nation.”²³ It is a public and private effort to bring together the country's most innovative entrepreneurs, corporations, universities, foundations, and other leaders to work with federal agencies to increase the number and success of U.S. entrepreneurs. One of the core goals is to empower more Americans not just to get a job, but also to create jobs. Learn more about the resources offered by Startup America at startupamericapartnership.org.

TESTPREP

- Why are people willing to take the risks of entrepreneurship?
- What are the advantages of entrepreneurial teams?
- How do micropreneurs differ from other entrepreneurs?
- What does the government do to promote entrepreneurship?

LO 5-2 Discuss the importance of small business to the American economy, and summarize the major causes of small-business failure.

Getting Started in Small Business

Let's suppose you have a great idea for a new business, you have the attributes of an entrepreneur, and you're ready to take the leap into business for yourself. How do you start? That's what the rest of this chapter is about.

It may be easier to identify with a small neighborhood business than with a giant global firm, yet the principles of management are similar for each. The management of charities, government agencies, churches, schools, and unions is much the same as the management of small and large businesses. So, as you learn about small-business management, you will take a giant step toward understanding management in general. All organizations

demand capital, good ideas, planning, information management, budgets (and financial management in general), accounting, marketing, good employee relations, and good overall managerial know-how. We shall explore these areas as they relate to small businesses and then, later in the book, apply the concepts to large firms and even global organizations.

Small versus Big Business

The Small Business Administration (SBA) defines a **small business** as one that is independently owned and operated, is not dominant in its field of operation, and meets certain standards of size in terms of employees or annual receipts (such as under \$2.5 million a year for service businesses). A small business is considered “small” only in relationship to other businesses in its industry. A wholesaler may sell up to \$22 million and still be considered a small business by the SBA. In manufacturing, a plant can have 500 employees and still be considered small. Let’s look at some interesting statistics about small businesses:²⁴

- There are over 31 million small businesses in the United States.
- Of all nonfarm businesses in the United States, almost 96 percent are considered small by SBA standards.
- Small businesses account for more than 44 percent of the gross domestic product (GDP).
- Over 400,000 tax-paying, employee-hiring businesses are started every year.
- Small businesses employ nearly half of all private-sector employees.
- Small businesses create approximately two-thirds of new jobs in the United States.

As you can see, small business is really a big part of the U.S. economy. How big? Let’s find out.

Importance of Small Businesses

Since 65 percent of the nation’s new jobs are in small businesses, there’s a very good chance you’ll either work in a small business someday or start one.²⁵ In addition to providing employment opportunities, small firms believe they offer other advantages over larger companies—more personal customer service and the ability to respond quickly to opportunities.

Bigger is not always better. Picture a hole in the ground. If you fill it with boulders, there are many empty spaces between them. If you fill it with sand, there is no space between the grains. That’s how it is in business. Big businesses don’t serve all the needs of the market. There is plenty of room for small companies to make a profit filling those niches.

Small-Business Success and Failure

You can’t be naïve about business practices, or you’ll go broke. According to the SBA, half of new businesses don’t last five years.²⁶ Some people argue that the failure rate is actually much lower than that statistic suggests. When small-business owners closed down one business to start another, for instance, they were included in the “failure” category—even though they hadn’t failed at all. Similarly, when a business changed its form of ownership or a sole proprietor retired, it was counted as a failure. The good news for entrepreneurs is that business failures are much lower than traditionally reported.

Figure 5.3 lists reasons for small-business failures, among them managerial incompetence and inadequate financial planning. Keep in mind that when a business fails, it is important that the owners learn from their mistakes. Some entrepreneurs who have suffered flops are more realistic than novice entrepreneurs. Because of the lessons they’ve learned, they may be more successful in their future ventures. Milton Hershey, for example,

small business

A business that is independently owned and operated, is not dominant in its field of operation, and meets certain standards of size (set by the Small Business Administration) in terms of employees or annual receipts.



Jeffrey Coillidge/Getty Images

When Roni Di Lullo’s dog Midnight had trouble catching a Frisbee due to his squinting, she retrofitted sports goggles to fit his canine face. Midnight became the hit of the dog park, and soon Di Lullo was making pairs for all sorts of interested pet owners. Eventually she contracted with a manufacturer and started a company called Doggles, which now earns \$3 million a year selling goggles to doggie fashionistas, veterinary ophthalmologists, and even military canines.

FIGURE 5.3 CAUSES OF SMALL-BUSINESS FAILURE

The following are some of the causes of small-business failure:

- Plunging in without first testing the waters on a small scale.
- Underpricing or overpricing goods or services.
- Underestimating how much time it will take to build a market.
- Starting with too little capital.
- Starting with too much capital and being careless in its use.
- Going into business with little or no experience and without first learning something about the industry or market.
- Borrowing money without planning just how and when to pay it back.
- Attempting to do too much business with too little capital.
- Not allowing for setbacks and unexpected expenses.
- Buying too much on credit.
- Extending credit too freely.
- Expanding credit too rapidly.
- Failing to keep complete, accurate records so that the owners drift into trouble without realizing it.
- Carrying habits of personal extravagance into the business.
- Not understanding business cycles.
- Forgetting about taxes, insurance, and other costs of doing business.
- Mistaking the freedom of being in business for oneself for the liberty to work or not, according to whim.

tried starting candy businesses in Chicago and New York and failed both times. He could have followed in the footsteps of his father, a dreamer who lacked the perseverance and work ethic to stick to an idea long enough to make it work. Instead Hershey kept trying and eventually built not only the world's largest candy company, but also schools, churches, and housing for his employees.

Steven Spielberg was rejected from film school three times before he got his first chance. Today he's considered one of the greatest directors of our time.²⁷ Arianna Huffington, cofounder of the *Huffington Post*, put learning from failure this way: "It was injected into me by my mother that failure was not something one could fear, it was not the opposite of success. It was just a bridge that would take you to success. And I didn't have to fear failure. Perseverance is everything. I'm not giving up. Everyone faces failures, but people who keep going on are successful."²⁸

Choosing the right type of business is critical. Many businesses with low failure rates require advanced training to start—veterinary services, dental practices, medical practices, and so on. While training and degrees may buy security, they do not tend to produce much growth—one dentist can fill only so many cavities. If you want to be both independent and rich, you need to go after growth. Often high-growth businesses, such as technology firms, are not easy to start and are even more difficult to keep going.

The easiest businesses to start have the least growth and greatest failure rate (like restaurants). The easiest to keep alive are difficult to get started (like manufacturing). And the ones that can make you rich are both hard to start and hard to keep going (like automobile assembly). See Figure 5.4 to get an idea of the business situations most likely to lead to success.

FIGURE 5.4 SITUATIONS FOR SMALL-BUSINESS SUCCESS

The following factors increase the chances of small-business success:

- The customer requires a lot of personal attention, as in a salon.
- The product is not easily made by mass-production techniques (e.g., custom-tailored clothes or custom auto-body work).
- Sales are not large enough to appeal to a large firm (e.g., a novelty shop).
- The neighborhood is not attractive because of crime or poverty. This provides a unique opportunity for small grocery stores and laundries.
- A large business sells a franchise operation to local buyers. (Don't forget franchising as an excellent way to enter the world of small business.)
- The owner pays attention to new competitors.
- The business is in a growth industry (e.g., computer services or web design).

When you decide to start your own business, think carefully. You're unlikely to find everything you want—easy entry, security, and reward—in one business. Choose those characteristics that matter most to you; accept the absence of the others; plan, plan, plan; and then go for it!

LO 5-3 Summarize ways to learn about how small businesses operate.

Learning About Small-Business Operations

Hundreds of would-be entrepreneurs ask the same question: “How can I learn to run my own business?” Here are some hints.

Learn from Others

Investigate your local community college for classes on small business and entrepreneurship; there are thousands of such programs throughout the United States. Many bring together entrepreneurs from diverse backgrounds who form helpful support networks.²⁹ Talk to others who have already done it. They'll tell you that location is critical and caution you not to be undercapitalized; that is, not to start without enough money. They'll warn you about the problems of finding and retaining good workers.³⁰ And, most of all, they'll tell you to keep good records and hire a good accountant and lawyer before you start. Free advice like this is invaluable.

Get Some Experience

There is no better way to learn small-business management than by becoming an apprentice or working for a successful entrepreneur. Many small-business owners got the idea for their businesses from their prior jobs. The rule of thumb is: Have three years' experience in a comparable business first.

Back in 1818, Cornelius Vanderbilt sold his own sailing vessels and went to work for a steamboat company so that he could learn the rules of the new game of steam. After learning what he needed to know, he quit, started his own steamship company, and became the first U.S. business owner to accumulate \$100 million.

Running a small business part-time, during your off hours or on weekends, can bring the rewards of working for yourself while still enjoying a regular paycheck at another job. It may save you money too because you're then less likely to make “rookie mistakes” when you start your own business. The **Making Ethical Decisions** box presents ethical questions about using the knowledge you've gained as an employee to start your own business.

Take Over a Successful Firm

Small-business owners work long hours and rarely take vacations. After many years, they may feel stuck and think they can't get out because they have too much time and effort invested. Thus, millions of small-business owners are eager to get away, at least for a long vacation.

This is where you come in. Find a successful businessperson who owns a small business. Tell him or her you are eager to learn the business and would

Sharon Anderson Wright spent her teenage years sorting novels, nonfiction, and newspapers at her family's used bookstore. She knew what her customers liked to read and worked closely with her mother to learn the fine details of the business. This experience served her well as she expanded Half Price Books into a national company earning more than \$250 million in annual revenue. How do you think Wright's experience helped the business succeed?



Nancy Newberry



MAKING ETHICAL DECISIONS

Should You Stay or Should You Go?

Suppose you've worked for two years in a company and you see signs that it is beginning to falter. You and a co-worker have ideas about how to make a company like your boss's succeed.

Rather than share your ideas with your boss, you and your friend are considering quitting your jobs and starting your own company together. Should you approach other co-workers about working

for your new venture? Will you try to lure your old boss's customers to your own business? What are your alternatives? What are the consequences of each alternative? What's the most ethical choice?

like to serve an apprenticeship; that is, a training period. Say that at the end of the training period (one year or so) you would like to help the owner or manager by becoming assistant manager. Thus, you can free the owner to take off weekends and holidays and have a long vacation—a good deal for him or her. For another year or so, work very hard to learn all about the business—suppliers, inventory, bookkeeping, customers, promotion. At the end of two years, make this offer: The owner can retire or work only part-time, and you will take over management of the business. You can establish a profit-sharing plan with the owner plus pay yourself a salary. Be generous with yourself; you'll earn it if you manage the business. You can even ask for 40 percent or more of the profits.

The owner benefits by keeping ownership in the business and making 60 percent of what he or she earned before—without having to work. You benefit by making 40 percent of the profits of a successful firm. This is an excellent deal for an owner about to retire—he or she is able to keep the firm and a healthy profit flow. It is also a clever and successful way to share in the profits of a successful small business without making any personal monetary investment.

If profit sharing doesn't appeal to the owner, you may want to buy the business outright. As more Baby Boomers retire, there are an increasing number of businesses for sale.³¹ How do you determine a fair price for a business? Value is based on (1) what the business owns, (2) what it earns, and (3) what makes it unique. Naturally, an accountant will need to help you determine the business's value.

If you fail at your efforts to take over the business through either profit sharing or buying, you can quit and start your own business fully trained.

LO 5-4 Analyze what it takes to start and run a small business.

Managing a Small Business

According to the Small Business Administration, one of the major causes of small-business failures is poor management. Keep in mind, though, that *poor management* covers a number of faults. It could mean poor planning, cash flow management, record keeping, inventory control, promotion, or employee relations. Most likely it includes poor capitalization. To help you succeed as a business owner, in the following sections we explore the functions of business in a small-business setting:

- Planning your business.
- Financing your business.
- Knowing your customers (marketing).
- Managing your employees (human resource development).
- Keeping records (accounting).
- Looking for help.



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Although all the functions are important in both the start-up and management phases of the business, the first two—planning and financing—are the primary concerns when you start your business. The others are the heart of your operations once the business is underway.

Planning Your Business

Many people eager to start a small business come up with an idea and begin discussing it with professors, friends, and other businesspeople. At this stage the entrepreneur needs a business plan. A **business plan** is a detailed written statement that describes the nature of the business, the target market, the advantages the business will have over competition, and the resources and qualifications of the owner(s). A business plan forces potential small-business owners to be quite specific about the products or services they intend to offer. They must analyze the competition, calculate how much money they need to start, and cover other details of operation. A business plan is also mandatory for talking with bankers or other investors.

Lenders want to know everything about an aspiring business. First, pick a bank that serves businesses the size of yours. Have a good accountant prepare a complete set of financial statements and a personal balance sheet. Make an appointment before going to the bank, and go to the bank with an accountant and all the necessary financial information. Demonstrate to the banker that you're a person of good character who is civic-minded and respected in business and community circles. Finally, ask for *all* the money you need, be specific, and be prepared to personally guarantee the loan.

Writing a Business Plan A good business plan takes a long time to write, but you've got only five minutes, in the *executive summary*, to convince readers not to throw it away. Since bankers receive many business plans every day, the summary has to catch their interest quickly. An outline of a comprehensive business plan follows. There's no such thing as a perfect business plan; even the most comprehensive business plan changes as the new business evolves.³²

Many software programs can help you get organized such as LivePlan and GoSmallBiz.³³ For a simplified business plan, you may want to check out Fortune 500 executive Jim Horan's book *The One Page Business Plan*. The book includes access to interactive exercises, forms, and templates. To see samples of successful business plans for a variety of businesses, go to bplans.com/sample_business_plans. You can also learn more about writing business plans on the Small Business Administration website at sba.gov/business-guide/plan/write-your-business-plan-template.

Getting your completed business plan into the right hands is almost as important as getting the right information into the plan. Finding funding requires research. Next we discuss sources of money available to new business ventures. All require a comprehensive business plan. The time and effort you invest before starting a business will pay off many times later. The big payoff is survival.

Financing Your Small Business

An entrepreneur has several potential sources of capital: personal savings; family and business associates; banks and finance institutions; angels, crowdfunding, and venture capitalists; and government agencies such as the Small Business Administration (SBA), the U.S. Economic Development Administration, and the Minority Business Development Agency.³⁴

Family and Business Associates The most common source of funding after personal savings is friends and family.³⁵ You may even want to consider borrowing from a potential supplier to your future business. Helping you get started may be in the supplier's interest if there is a chance you will be a big customer later. This is what Ray Kroc did in the



Rowheels, Inc.

After fracturing his leg, Rimas Buinevicius quickly became aware of the shoulder pain that can result from constantly pushing a wheelchair. To reduce the stress on his body, he joined up with some partners to devise and design Rowheels, a system that allows users to row rather than push their wheelchairs. The company aims to relieve those who suffer from frequent shoulder injuries by providing them with “the world’s first truly therapeutic manual wheelchair.” Can you think of another example where entrepreneurship was used to solve a problem?

business plan

A detailed written statement that describes the nature of the business, the target market, the advantages the business will have in relation to competition, and the resources and qualifications of the owner(s).

OUTLINE OF A COMPREHENSIVE BUSINESS PLAN

A good business plan is between 25 and 50 pages long and takes at least six months to write.

Cover Letter

Only one thing is certain when you go hunting for money to start a business: You won't be the only hunter out there. You need to make potential funders want to read *your* business plan instead of the hundreds of others on their desks. Your cover letter should summarize the most attractive points of your project in as few words as possible. Be sure to address the letter to the potential investor by name. "To whom it may concern" or "Dear Sir or Madam" is not the best way to win an investor's support.

Section 1—Executive Summary

Begin with a two- or three-page management summary of the proposed venture. Include a short description of the business, and discuss major goals and objectives.

Section 2—Company Background

Describe company operations to date (if any), potential legal considerations, and areas of risk and opportunity. Summarize the firm's financial condition, and include past and current balance sheets, income and cash flow statements, and other relevant financial records (you will read about these financial statements in Chapter 14). It is also wise to include a description of insurance coverage. Investors want to be assured that death or other mishaps do not pose major threats to the company.

Section 3—Management Team

Include an organization chart, job descriptions of listed positions, and detailed résumés of the current and proposed executives. A mediocre idea with a proven management team is funded more often than a great idea with an inexperienced team. Managers should have expertise in all disciplines necessary to start and run a business. If not, mention outside consultants who will serve in these roles and describe their qualifications.

Section 4—Financial Plan

Provide five-year projections for income, expenses, and funding sources. Don't assume the business will grow in a straight line. Adjust your planning to allow for funding at various stages of the company's growth. Explain the rationale and assumptions used to determine the estimates. Assumptions should be reasonable and based on industry/historical trends. Make sure all totals add up and are consistent throughout the plan. If necessary, hire a professional accountant or financial analyst to prepare these statements.

Stay clear of excessively ambitious sales projections; rather, offer best-case, expected, and worst-case scenarios. These not only reveal how sensitive the bottom line is to sales fluctuations but also serve as good management guides.

Section 5—Capital Required

Indicate the amount of capital needed to commence or continue operations, and describe how these funds are to be used. Make sure the totals are the same as the ones on the cash flow statement. This area will receive a great deal of review from potential investors, so it must be clear and concise.

Section 6—Marketing Plan

Don't underestimate the competition. Review industry size, trends, and the target market segment. Discuss strengths and weaknesses of the product or service. The most important things investors want to know are what makes the product more desirable than what's already available and whether the product can be patented. Compare pricing to the competition's. Forecast sales in dollars and units. Outline sales, advertising, promotion, and public relations programs. Make sure the costs agree with those projected in the financial statements.

Section 7—Location Analysis

In retailing and certain other industries, the location of the business is one of the most important factors. Provide a comprehensive demographic analysis of consumers in the area of the proposed business as well as a traffic-pattern analysis and vehicular and pedestrian counts.

Section 8—Manufacturing Plan

Describe minimum plant size, machinery required, production capacity, inventory and inventory-control methods, quality control, plant personnel requirements, and so on. Estimates of product costs should be based on primary research.

Section 9—Appendix

Include all marketing research on the product or service (off-the-shelf reports, article reprints, etc.) and other information about the product concept or market size. Provide a bibliography of all the reference materials you consulted. This section should demonstrate that the proposed company won't be entering a declining industry or market segment.

early years of McDonald's. When Kroc didn't have the funds available to keep the company going, he asked his suppliers to help him with the necessary funds. These suppliers grew along with McDonald's. It's usually not a good idea to ask such an investor for money at the outset. Begin by asking for advice; if the supplier likes your plan, he or she may be willing to help you with funding too.

Banks and Finance Institutions Small-business owners often need to do a little extra shopping to find a lender. Many find that smaller community banks are more likely to grant loans than larger regional banks. Since small banks do business in a single town or cluster of towns, they know their customers better. They have more flexibility to make lending decisions based on everything they know about their customers, rather than on a more automated basis as larger banks must.³⁶

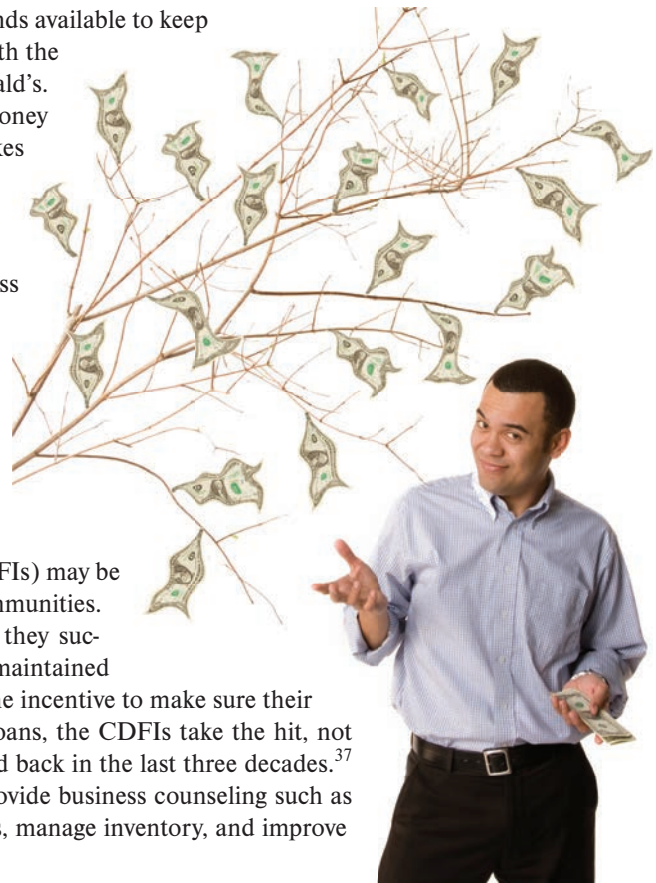
Community development financial institutions (CDFIs) may be a source of funding for businesses in lower-income communities. CDFIs played a big role in the economic recovery, and they succeeded even after the credit bubble of 2008 because they maintained the financial discipline other lenders lacked. They have the incentive to make sure their clients succeed because, if borrowers don't repay their loans, the CDFIs take the hit, not investors. Less than 1 percent of their loans were not paid back in the last three decades.³⁷ CDFIs don't just loan money. More importantly, they provide business counseling such as helping owners learn how to develop marketing strategies, manage inventory, and improve cash flow.

Angels, Crowdfunding, and Venture Capitalists Individual investors are also a frequent source of capital for most entrepreneurs. *Angel investors* are private individuals who invest their own money in potentially hot new companies before they go public.

A number of websites match people who want money with those willing to lend it. They include donation-based services (such as GoFundMe and Kickstarter where companies accept small donations in exchange for perks like T-shirts or other memorabilia) and debt-investment sites (such as Funding Circle that offers loans that need to be repaid plus interest). This form of individual investing is called *peer-to-peer (P2P) lending* or *crowdfunding*. A creditworthy borrower often gets such money faster and more easily than going to the bank. And the cost is often less than a bank loan. With hundreds of crowdfunding sites, it can be confusing to know which one is the best fit for you and your prospective business. Reviewing services like CrowdsUnite offer feedback from users of lending sites to help you better understand your options.

The JOBS Act of 2012 allows businesses to raise up to \$1 million a year from private investors without making an initial public offering (discussed in Chapter 15). Prior to the JOBS act, it was illegal for private companies to sell shares in their companies to the public. The JOBS Act allows businesses to use fundraising sites to solicit larger investments in exchange for ownership shares in the business.³⁸ Many prefer the terms *crowdinvesting* or *equity crowdfunding* for this form of fundraising.

Venture capitalists may finance your project—for a price. Venture capitalists may ask for a hefty stake in your company (as much as 60 percent) in exchange for the cash to start your business. If the venture capitalist takes too large a stake, you could lose control of the business. Since the widespread failure of early web start-ups, venture capitalists have been willing to invest less and expect more return on their investment if the new company is sold.³⁹ Therefore, if you're a very small company, you don't have a very good chance of getting venture capital. You'd have a better chance finding an angel investor or using crowdfunding.



John M Lund Photography Inc/Getty Images

Wouldn't it be great if money grew on trees? Unfortunately it doesn't, so prospective entrepreneurs must find other sources of capital such as personal savings, relatives, former employers, banks, finance companies, venture capitalists, and government agencies. What is the most common source of funding after personal savings?

McGraw Hill connect



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venture capitalists

Individuals or companies that invest in new businesses in exchange for partial ownership of those businesses.

Small Business Administration (SBA)

A U.S. government agency that advises and assists small businesses by providing management training and financial advice and loans.

Small Business Investment Company (SBIC) Program

A program through which private investment companies licensed by the Small Business Administration lend money to small businesses.

If your proposed venture does require millions of dollars to start, experts recommend that you talk with at least five investment firms and their clients in order to find the right venture capitalist. You may be able to connect with potential investors through AngelList, an online nonprofit service that helps entrepreneurs and venture capitalists get to know each other.⁴⁰ To learn more about how to find venture capitalists, visit the National Venture Capital Association's website (nvca.org).

The Small Business Administration (SBA) The **Small Business Administration (SBA)** is a U.S. government agency that advises and assists small businesses by providing management training and financial advice and loans (see Figure 5.5). The SBA started a microloan demonstration program in 1991. The program provides very small loans (up to \$50,000) and technical assistance to small-business owners. It is administered through a nationwide network of nonprofit organizations chosen by the SBA. Rather than award loans based on collateral, credit history, or previous business success, the program judges worthiness on belief in the borrowers' integrity and the soundness of their business ideas.⁴¹

The SBA reduced the size of its application from 150 pages to 1 page for loans under \$50,000. Since government regulations are constantly changing, you may want to go to the SBA's website (sba.gov) for the latest information about SBA programs and other business services.

You may also want to consider requesting funds from the **Small Business Investment Company (SBIC) Program**. SBICs are private investment companies licensed by the SBA to lend money to small businesses. An SBIC must have a minimum of \$5 million in capital and can borrow up to \$2 from the SBA for each \$1 of capital it has. It lends to or invests in small businesses that meet its criteria. Often SBICs are able to keep defaults to a minimum by identifying a business's trouble spots early, giving entrepreneurs advice, and in some cases rescheduling loan payments.

FIGURE 5.5 TYPES OF SBA FINANCIAL ASSISTANCE

The SBA may provide the following types of financial assistance:

- *Standard 7(a) loans*—loans made by a financial institution that the government will repay if the borrower stops making payments. The maximum individual loan guarantee is capped at \$5 million.
- *Microloans*—amounts ranging from \$100 to \$50,000 to people such as single mothers and public housing tenants.
- *SBA Express*—program that accelerates the SBA response time to 36 hours. The loan limit is \$350,000.
- *Export Express*—loans made to small businesses wishing to export. The maximum guaranteed loan amount is \$500,000.
- *International Trade Loans*—long-term financing to businesses that are expanding because of growing export sales or that have been adversely affected by imports and need to modernize to meet foreign competition. The loan limit is \$5 million.
- *Community Adjustment and Investment Program (CAIP)*—loans to businesses to create new, sustainable jobs or to preserve existing jobs in eligible communities that have lost jobs due to changing trade patterns with Mexico and Canada following the adoption of NAFTA.
- *504 certified development company (CDC) loans*—loans for purchasing major fixed assets, such as land and buildings for businesses in eligible communities, typically rural communities or urban areas needing revitalization. The maximum guaranteed loan amount is \$5 million for meeting the job creation criteria or a community development goal. The business must create or retain one job for every \$65,000 (\$100,000 for small manufacturers) provided by the SBA.
- *CAPLine loans*—loans to help small businesses meet their short-term and cyclical working capital needs. The maximum CAPLine loan is \$5 million.

Perhaps the best place for young entrepreneurs to start shopping for an SBA loan is a Small Business Development Center (SBDC). SBDCs are funded jointly by the federal government and individual states, and are usually associated with state and community colleges and universities. SBDCs can help you evaluate the feasibility of your idea, develop your business plan, and complete your funding application—all for no charge.

To help small businesses financially affected by the COVID-19 pandemic, the SBA offered a number of loan options including the Paycheck Protection Program (PPP), which provided forgivable loans to businesses that kept workers employed; COVID-19 EIDL, which issued low-interest loans to businesses that suffered revenue loss; and the Restaurant Revitalization Fund, which provided funding to eligible bars and restaurants.

Obtaining money from banks, venture capitalists, and government sources is very difficult for most small businesses. (You will learn more about financing in Chapter 15.) Those who do survive the planning and financing of their new ventures are eager to get their businesses up and running. Your success in running a business depends on many factors, especially knowing your customers, managing your employees, and keeping good records.

Knowing Your Customers

One of the most important elements of small-business success is knowing the **market**, which consists of consumers with unsatisfied wants and needs who have both resources and the willingness to buy. Most of our students have the willingness to own a brand-new Maserati sports car. However, few have the resources necessary to satisfy this want. Would they be a good market for a luxury car dealer?

Once you have identified your market and its needs, you must set out to fill those needs. How? Offer top quality at a fair price with great service. Remember, it isn't enough to get customers—you have to *keep* them. There are signs everywhere telling you how happy your customers are, including in operational data, social media posts, financial data, contact center calls, the company website, and many more places. Using AI and machine learning tools can help you understand what your customers and prospects are saying about your business in real time.⁴²

One of the greatest advantages small businesses have is the ability to know their customers better and adapt quickly to their ever-changing needs. The only way to know what your customers' needs are is to listen, listen, listen. Don't let your passion and ego get in the way of changing your products or services to fit what customers really want. You will gain more insights about markets in Chapters 11 and 12. Now let's consider effectively managing the employees who help you serve your market.

Managing Your Employees

As a business grows, it becomes impossible for an entrepreneur to oversee every detail, even by putting in 60 hours per week. This means that hiring, training, and motivating employees are critical.

It is not easy to find good help when you offer less money, skimpier benefits, and less room for advancement than larger firms do. That's one reason good employee relations are important for small-business management. Employees of small companies are often more satisfied with their jobs than are their counterparts in big business. Why? Quite often they find their jobs more challenging, their ideas more accepted, and their bosses more respectful.⁴³

Often entrepreneurs are reluctant to recognize that to keep growing, they must delegate authority to others. Who should have this delegated authority, and how much? This can be a particularly touchy issue in small businesses with long-term employees and

market

People with unsatisfied wants and needs who have both the resources and the willingness to buy.

Not all small businesses stay small; some become superstars. For example, Mattel founders Ruth and Elliot Handler started out in their garage making picture frames. When they discovered that the dollhouse furniture they made with the wood scraps sold better than the frames, they changed their business to focus on dolls. Today, Mattel is a multibillion-dollar business thanks to the success of blockbuster toys like Barbie.



John Angellilo/UPI/Alamy Stock Photo

in family businesses. As you might expect, entrepreneurs who have built their companies from scratch often feel compelled to promote employees who have been with them from the start—even when they aren't qualified to serve as managers. Common sense tells you this could hurt the business. The idea that you must promote or can't fire people because "they're family" can also hinder growth. Entrepreneurs best serve themselves and the business if they gradually recruit and groom employees for management positions, enhancing trust and support between them. You'll learn more about managing employees in Chapters 6 through 10.

Keeping Records

Small-business owners often say the most important assistance they received in starting and managing their business was in accounting. A businessperson who sets up an effective accounting system early will save much grief later. Accurate record keeping enables a small-business owner to follow daily sales, expenses, and profits, as well as helping with inventory control, customer records, and payroll.

Many business failures are caused by poor accounting practices that lead to costly mistakes. A good accountant can help you decide whether to buy or lease equipment and whether to own or rent a building. He or she may also help you with tax planning, financial forecasting, choosing sources of financing, and writing requests for funds.

Other small-business owners may tell you where to find an accountant experienced in small business. It pays to shop around for advice. You'll learn more about accounting in Chapter 14.

Looking for Help

Small-business owners have learned, sometimes the hard way, that they need outside consulting advice early in the process. This is especially true of legal, tax, and accounting advice but also of marketing, finance, and other areas. Most small and medium-sized firms cannot afford to hire such experts as employees, so they must turn to outside assistance.

A necessary and invaluable aide is a competent, experienced lawyer who knows and understands small businesses. Lawyers can help with leases, contracts, partnership agreements, and protection against liabilities. They don't have to be expensive. In fact, several prepaid legal plans offer services such as drafting legal documents for a low annual rate. Of course, you can find plenty of legal services online. The SBA offers plain-English guides and mini-tutorials that will help you gain a basic understanding of the laws that affect each phase of the life of a small business. Sites like FindForms.com offer search tools that help you find free legal forms from all over the web as well as advice, links, books, and more. Remember, "free" isn't a bargain if the information isn't correct, so check the sources carefully and double-check any legal actions with an attorney.⁴⁴

Make your marketing decisions long before you introduce a product or open a store. An inexpensive marketing research study may help you determine where to locate, whom to select as your target market, and what is an effective strategy for reaching it. Thus, a marketing consultant with small-business experience can be of great help to you, especially one who has had experience with building websites and using social media.

Two other invaluable experts are a commercial loan officer and an insurance agent. The commercial loan officer can help you design an acceptable business plan

Karen Williams, owner of the Cincinnati-based company Sewendipity Lounge, worked with a SCORE mentor to develop the business side of her sewing studio. The mentor advised her about financing, sales and marketing, human resources, operations, and organizational planning. What was the price tag for all of this valuable advice? \$0!

Ron Hill Photography, www.ronhillphotography.com



and give you valuable financial advice as well as lend you money when you need it. An insurance agent will explain all the risks associated with a small business and how to cover them most efficiently with insurance and other means like safety devices and sprinkler systems.

An important source of information for small businesses is the **Service Corps of Retired Executives (SCORE)**. This SBA resource partner has more than 10,000 volunteers (many still working in their fields) from industry, trade associations, and education who counsel small businesses at no cost (except for expenses).⁴⁵ You can find a SCORE counselor by logging on to score.org. The SBA also offers a free, comprehensive online entrepreneurship course for aspiring entrepreneurs.

Often business professors from local colleges will advise small-business owners free of charge or for a small fee. Some universities have clubs or programs that provide consulting services by master of business administration (MBA) candidates for a nominal fee. The University of Maryland and Virginia Tech have internship programs that pair MBA students with budding companies in local incubator programs. The incubator companies pay half the intern's salary, which is around \$20 an hour.⁴⁶

It is also wise to seek the counsel of other small-business owners. Entrepreneur.com offers experienced entrepreneurs and young start-ups an open forum to exchange advice and ideas. Visitors have access to articles on marketing, business planning, incorporation, and financial management. Peer groups within specific industries can give you better insights into the challenges and solutions encountered by other business owners in your field. For example, Gateway Wellness Associates in St. Louis, Missouri, offers office space, resources, and business guidance to therapists and other wellness professionals who want to start their own private practices.⁴⁷ Peer advisory organizations that could help you connect with a peer group in your industry include Young Entrepreneurs' Council and Entrepreneurs' Organization.

Other sources of counsel include local chambers of commerce, the Better Business Bureau, national and local trade associations, the business reference section of your library, and many small-business-related websites.

Service Corps of Retired Executives (SCORE)

An SBA office with volunteers from industry, trade associations, and education who counsel small businesses at no cost (except for expenses).

TESTPREP

- A business plan is probably the most important document a small-business owner will ever create. There are nine sections in the business plan outline shown in the chapter. Can you describe at least five of those sections now?

LO 5-5 Outline the advantages and disadvantages small businesses have in entering global markets.

Going Global: Small-Business Prospects

As we noted in Chapter 2, there are over 333 million people in the United States but more than 7.9 billion people in the world.⁴⁸ Obviously, the world market is a much larger, more lucrative market for small businesses than the United States alone. Small and medium-sized businesses accounted for 99 percent of the growth in exporting firms in recent years. All this exporting is paying off. According to the International Trade Commission, small exporting firms account for 98 percent of all exporting firms and 34 percent of all U.S. exporting value.⁴⁹

Dave Haymond, creator of The Wizard Spiral Gumball Machine, liked to say that his mission was to “help people make money while doing nothing.” That’s certainly not the case for Global Gumball, which ships the machines to clients around the world. How do technological advancements like the Internet help Global Gumball serve its international customers?

Igor Tokalenko/Alamy Stock Photo



Technological advances have helped increase small-business exporting. PayPal makes it possible for small businesses to get paid automatically when they conduct global business online. The Internet also helps small businesses find customers without the expense of international travel. It’s becoming easier than ever for small businesses to access foreign markets online. In 2019, Chinese e-commerce giant Alibaba Group Holdings Ltd. began to allow small businesses in the United States to sell on Alibaba.com. Previously, U.S.-based businesses were only able to buy items on the site. This plan opened up markets to U.S. merchants in other countries including India, Brazil, and Canada.⁵⁰

Still, many small businesses have difficulty getting started in global business. Why are so many missing the boat to the huge global markets? Primarily because the voyage includes a few major hurdles: (1) financing is often difficult to find, (2) would-be exporters don’t know how to get started and do not understand the cultural differences between mar-

kets, and (3) the bureaucratic paperwork can threaten to bury a small business.

Beside the fact that most of the world’s market lies outside the United States, there are other good reasons for going global. Exporting can absorb excess inventory, soften downturns in the domestic market, and extend product lives. It can also spice up dull routines.

Small businesses have several advantages over large businesses in international trade:

- Overseas buyers often enjoy dealing with individuals rather than with large corporate bureaucracies.
- Small companies can usually begin shipping much faster.
- Small companies can provide a wide variety of suppliers.
- Small companies can give customers personal service and undivided attention because each overseas account is a major source of business to them.

A good place to start finding information about exporting is the Department of Commerce’s Bureau of Industry and Security (bis.doc.gov). Other sources include the SBA’s Office of International Trade. The SBA’s Export Express loan program provides export financing opportunities for small businesses. The program is designed to finance a variety of needs of small-business exporters, including participation in foreign trade shows, catalog translations for use in foreign markets, lines of credit for export purposes, and real estate and equipment for the production of goods or services to be exported.⁵¹



- Why do many small businesses avoid doing business globally?
- What are some of the advantages small businesses have over large businesses in selling in global markets?

SUMMARY

LO 5-1 Explain why people take the risks of entrepreneurship; list the attributes of successful entrepreneurs; and describe entrepreneurial teams, intrapreneurs, and home- and web-based businesses.

- **What are a few of the reasons people start their own businesses?**
Reasons include profit, independence, opportunity, and challenge.
- **What are the attributes of successful entrepreneurs?**
Successful entrepreneurs are self-directed, self-nurturing, action-oriented, highly energetic, and tolerant of uncertainty.
- **What have modern entrepreneurs done to ensure longer terms of management?**
They have formed entrepreneurial teams with expertise in the many skills needed to start and manage a business.
- **What is a micropreneur?**
Micropreneurs are people willing to accept the risk of starting and managing the type of business that remains small, lets them do the kind of work they want to do, and offers them a balanced lifestyle.
- **What is intrapreneuring?**
Intrapreneuring is the establishment of entrepreneurial centers within a larger firm where people can innovate and develop new-product ideas internally.
- **Why has there been such an increase in the number of home-based and web-based businesses in the last few years?**
The increase in power and decrease in price of computer technology have leveled the field and made it possible for small businesses to compete against larger companies—regardless of location.

LO 5-2 Discuss the importance of small business to the American economy, and summarize the major causes of small-business failure.

- **Why are small businesses important to the U.S. economy?**
Small businesses create approximately two-thirds of new jobs in the United States.
- **What does the *small* in small business mean?**
The Small Business Administration defines a small business as one that is independently owned and operated, is not dominant in its field of operation, and meets certain standards of size in terms of employees or sales (depending on the size of others in the industry).
- **Why do many small businesses fail?**
Many small businesses fail because of managerial incompetence and inadequate financial planning. See Figure 5.3 for a list of causes of small-business failure.

LO 5-3 Summarize ways to learn about how small businesses operate.

- **What hints would you give someone who wants to learn about starting a small business?**
First, learn from others. Take courses and talk with some small-business owners. Second, get some experience working for others. Third, take over a successful firm. Finally, study the latest in small-business management techniques.

LO 5-4 Analyze what it takes to start and run a small business.

- **What goes into a business plan?**
See the outline of a business plan in the chapter.
- **What sources of funds should someone wanting to start a new business consider investigating?**
A new entrepreneur has several potential sources of capital: personal savings; family and business associates; banks and finance institutions; angels, crowdfunding, and venture capitalists; and government agencies and more.
- **What are some of the special problems that small-business owners have in dealing with employees?**
Small-business owners often have difficulty finding competent employees and grooming employees for management responsibilities.
- **Where can budding entrepreneurs find help in starting their businesses?**
Help can come from many sources: accountants, lawyers, marketing researchers, loan officers, insurance agents, the SBA, SBDCs, SBICs, peer groups, and even college professors.

LO 5-5 Outline the advantages and disadvantages small businesses have in entering global markets.

- **What are some advantages small businesses have over large businesses in global markets?**
Foreign buyers enjoy dealing with individuals rather than large corporations because (1) small companies provide a wider variety of suppliers and can ship products more quickly and (2) small companies give more personal service.
- **Why don't more small businesses start trading globally?**
There are several reasons: (1) financing is often difficult to find, (2) many people don't know how to get started and do not understand the cultural differences in foreign markets, and (3) the bureaucratic red tape is often overwhelming.

KEY TERMS

business plan 139	market 143	Small Business Administration (SBA) 142
enterprise zones 133	micropreneurs 130	Small Business Investment Company (SBIC) Program 142
entrepreneurial team 129	Service Corps of Retired Executives (SCORE) 145	venture capitalists 141
entrepreneurship 126	small business 135	
incubators 133		
intrapreneurs 130		

CRITICAL THINKING

1. Do you have the entrepreneurial spirit? What makes you think that?
2. Are there any similarities between the characteristics demanded of an entrepreneur and those of a professional athlete? Would an athlete be a good prospect for entrepreneurship? Why or why not? Could teamwork be important in an entrepreneurial effort? Why or why not?
3. Imagine yourself starting a small business. What kind of business would it be? How much competition is there? What could you do to make your business more attractive than those of competitors? Would you be willing to work 60 to 70 hours a week to make the business successful?

PURPOSE

To assess your potential to succeed as an entrepreneur and to evaluate a sample business plan.

EXERCISE

1. Go to bizmove.com/other/quiz.htm and take the interactive entrepreneurial quiz to find out whether you have the qualities to be a successful entrepreneur.
2. If you have entrepreneurial traits and decide you would like to start your own business, you'll need to develop a business plan. Go to bplans.com/sample_business_plans.cfm and click on "Food and Beverage Business Plans." Review the sample business plan for Internet Cafe. Although the plan may not follow the same format as the business plan outline in the chapter, does it contain all the necessary information listed in the outline? If not, what is missing?

PUTTING PRINCIPLES TO WORK

KEY: ● Team ★ Analytic ▲ Communication □ Technology

1. Find issues of *Entrepreneur*, *Black Enterprise*, *Fast Company*, and *Inc.* magazines online. Read about the entrepreneurs who are heading today's dynamic new businesses. Write a profile about one. □ ▲
2. Select a small business that looks attractive as a career possibility for you. Talk to at least one person who manages such a business. Ask how he or she started it. Ask about financing, human resource management (hiring, firing, training, scheduling), accounting issues, and other managerial matters. Prepare a summary of your findings, including whether the person's job was rewarding, interesting, and challenging—and why or why not. ▲ ★
3. Contact the Small Business Administration by visiting a local office or the organization's website at sba.gov. Write a brief summary of the services the SBA offers. □ ▲
4. Select a small business in your area or a surrounding area that has failed. List the factors you think led to its failure. Compile a list of actions the business owners might have taken to keep the company in business. ▲ ★
5. Choose a partner from among your classmates and put together a list of factors that might mean the difference between success and failure of a new company entering the business technology industry. Can small start-ups realistically hope to compete with companies such as Microsoft and Intel? Discuss the list and your conclusions in class. ● ▲ ★

DEVELOPING CAREER SKILLS**CAREER EXPLORATION**

You can start a small business in any industry you like. We've talked about a few throughout the chapter, but here are a few more with low start-up costs to consider. Find out about the tasks performed, skills needed, and opportunity outlook in these fields in the *Occupational Outlook Handbook (OOH)* at bls.gov.

- **Craft and fine artist**—uses a variety of materials and techniques to create art for sale. Craft artists create handmade objects such as pottery, glassware, textiles, and other objects. Fine artists create original works of art such as paintings and sculptures.
- **Web developer**—designs and creates websites; responsible for the look of the site and for its technical aspects, and may create content for the site.
- **General repair service**—paints, makes household repairs, works on plumbing and electrical systems, and so on.
- **Small-engine mechanic**—inspects, services, and repairs motorized power equipment such as outdoor power equipment (lawn mowers, leaf blowers, etc.).

VIDEO CASE

Cousins Maine Lobster: From Small Partnership to Successful Franchisor



If you have a passion for what you do and want to share it with others, there's a chance you could succeed as an entrepreneur. As lifelong residents of Maine, cousins Jim Tselikis and Sabin Lomac were passionate about lobster and knew many people who were lobstermen and lobsterwomen. When Lomac moved to Los Angeles, he quickly started to miss the shellfish from back home. That's when he and his cousin came up with the idea to open a food truck that served authentic Maine lobster rolls in California. Appropriately, they named their company Cousins Maine Lobster.

Today the company brings premium lobster rolls, lobster bisque, and other tasty fare to hungry diners in the Los Angeles area as well as 20 additional cities across the United States. As company cofounder Jim Tselikis explains, Cousins focuses on serving the nation's best lobster while providing superior, Maine-inspired customer service. At the start of things, though, the cousins didn't know anything about business, let alone one as challenging as a food truck. They learned as much as they could about food trucks and picked the brains of everyone they knew for tips about running a business. Finally, they felt confident enough to roll out their first Cousins Maine Lobster truck.

Opening day was a true eye opener for the cousins as the line for lobster stretched as far as they could see. While both of them knew they had hit on something big, they also discovered just how much they needed to learn if they were going to succeed. For example, prior to opening they had not thought of the logistics and forecasting critical to their business. If they ordered too much lobster, it would spoil and they'd lose money. If they ran out of lobster, customers would leave hungry and the company would lose money once again. They needed an angel to throw them a lifeline.

Fortunately, help came in the form of a shark. Tselikis and Lomac were invited to go on *Shark Tank*, a reality TV show where entrepreneurs pitch their ideas to a panel of investors. Before their appearance, they studied the backgrounds of each "shark" they would face and prepared for questions that could be raised about their business. After a tense negotiation, the cousins secured a deal with real estate tycoon Barbara Corcoran, who offered \$55,000 for 15 percent of their business. More importantly, she served as a mentor to the aspiring entrepreneurs and advised them to consider franchising their business.

Franchising allowed them to scale their business by replicating Cousins Maine Lobster food trucks across the country. Franchising, however, caused them to lose some control over their business. They also learned that they needed to choose the right franchisees in order to keep the business sustainable and healthy. Today, caring for employees and franchisees is a vital part of Cousins culture. Both staff and franchisees are empowered to make their own decisions. Cousins Maine Lobster envisions a bright future with rapid expansion. Tselikis and Lomac believe this success will hinge on not compromising on three key things: quality of food, customer service, and treatment of employees and franchisees like family.

THINKING IT OVER

1. What personal characteristics do you think helped Tselikis and Lomac succeed as entrepreneurs?
2. Why did they seek outside help to improve their business? What sort of help did they receive?
3. What are some of the advantages and disadvantages of expanding a business by franchising?

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SUPPORT AT
every step

Supporting Faculty Every Step Of The Way

*"A reliable partner in building engaging learning experiences."
Hear more from instructors»*

Developing an engaging learning experience is more challenging than ever before, but you are not alone. Join the tens-of-thousands of instructors who confidently partner with McGraw Hill's support community to tailor their courseware design to maximize outcomes for students.



**OLC
Partnership**



**1:1 Peer
Consultation**



**Implementation
Team**



**Local Support
Team**



**24/7 Product
Support**

Reliable partners and results focused design

- McGraw Hill's partnership with the [Online Learning Consortium](#) (OLC) strengthens our partnership with you.
- Access to a dedicated Implementation Consultant certified in quality course design by the OLC to assist in designing your course. Learn how your [Implementation Consultant](#) can help you.
- Local team to ensure the unique needs of you and your students are met.

Personalized support at every step

- Network of instructors available to provide peer-to-peer support in your course area.
- On-demand course set-up and delivery resources available to you in our platforms and at supportateverystep.com.
- Instructionally designed OLC-Aligned courseware and discipline-specific guides to help you create an engaging course, easily.

Connect with a member of the McGraw Hill community of support »





Thank You

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