CONTENTS

Techniques for Improving the Creative Process 83
Brainstorming 83
Mind Mapping 85
Force-Field Analysis 85
TRIZ 86
Rapid Prototyping 87
Intellectual Property: Protecting Your Ideas 88
Patents 88
Copyrights 94
Chapter Summary by Learning Objective 95
Discussion Questions 96
Beyond the Classroom . . . 97
Endnotes 98

SECTION II Building the Business Plan: Beginning Considerations 102

Chapter 3 Designing a Competitive Business Model and Building a Solid Strategic Plan 102
Building a Competitive Advantage 104
The Strategic Management Process 107
Step 1. Develop a Clear Vision and Translate It into a Meaningful Mission Statement Vision 108
Step 2. Assess the Company's Strengths and Weaknesses 111
Step 3. Scan the Environment for Significant Opportunities and Threats Facing the Business 111
YOU BE THE CONSULTANT The Best Little Pizza Chain No One Ever Heard Of 114
HANDS ON HOW TO Beat the Big Guys 115
Step 4. Identify the Key Factors for Success in the Business 117
Step 5. Analyze the Competition 119
Step 6. Create Company Goals and Objectives 123
Step 7. Formulate Strategic Options and Select the Appropriate Strategies 124
ETHICS AND ENTREPRENEURSHIP Cascade Engineering's Triple Bottom Line 125
YOU BE THE CONSULTANT Strategies Etched in Chocolate 131

Chapter 4 Conducting a Feasibility Analysis and Crafting a Winning Business Plan 142
Conducting a Feasibility Analysis 144
Industry and Market Feasibility Analysis 144
Product or Service Feasibility Analysis 149
YOU BE THE CONSULTANT Does Your Business Model GEL? 149
Prototypes 152
In-Home Trials 152
Financial Feasibility Analysis 153
Why Develop a Business Plan? 154
The Elements of a Business Plan 156
YOU BE THE CONSULTANT Battle of the Plans 157
Title Page and Table of Contents 159
Executive Summary 159
Vision and Mission Statement 160
Company History 160
Business and Industry Profile 160
Goals and Objectives 160
Business Strategy 161
Description of the Company's Product or Service 161
Marketing Strategy 162
Documenting Market Claims 163
Showing Customer Interest 163
Competitor Analysis 165
Description of the Management Team 165
Plan of Operation 166
Pro Forma (Projected) Financial Statements 166
The Loan or Investment Proposal 167
HANDS ON HOW TO Launch a Lean Start-up 169
What Lenders and Investors Look for in a Business Plan 170
Capital 170
Capacity 170
Collateral 170
Character 170
Conditions 170
Making the Business Plan Presentation 172
Contents

Conclusion 172
Business Plan Format 173
Chapter Summary by Chapter
Objective 175 • Discussion
Questions 176 • Beyond the Classroom... 177 • Endnotes 178

Chapter 5 Forms of Business Ownership 180
☐ HANDS ON... HOW TO Come Up with the Perfect Moniker for Your Business 183
The Sole Proprietorship 185
The Advantages of a Proprietorship 185
The Disadvantages of a Proprietorship 186
The Partnership 187
The Advantages of the Partnership 189
The Disadvantages of the Partnership 190
Limited Partnerships 192
☐ YOU BE THE CONSULTANT Making a Partnership Work 193
Limited Liability Partnerships 194
Corporations 195
How to Incorporate 195
The Advantages of the Corporation 197
The Disadvantages of the Corporation 199
Other Forms of Ownership 201
The S Corporation 201
The Limited Liability Company 203
The Professional Corporation 204
☐ YOU BE THE CONSULTANT Which Form Is Best? 204
The Joint Venture 205
Chapter Summary by Learning Objective 207 • Discussion
Questions 207 • Beyond the Classroom... 208 • Endnotes 209

Chapter 6 Franchising and the Entrepreneur 210
Types of Franchising 212
The Benefits of Buying a Franchise 214
A Business System 214
Management Training and Support 214
Brand-Name Appeal 215
Standardized Quality of Goods and Services 215
National Advertising Programs 216
Financial Assistance 216
Proven Products, Processes, and Business Formats 217
Centralized Buying Power 218
Site Selection and Territorial Protection 218
Greater Chance for Success 218
☐ YOU BE THE CONSULTANT Would You Buy This Franchise? 219
The Drawbacks of Buying a Franchise 220
Franchise Fees and Ongoing Royalties 220
Strict Adherence to Standardized Operations 221
Restrictions on Purchasing 222
Limited Product Line 222
Contract Terms and Renewal 222
Unsatisfactory Training Programs 223
Market Saturation 223
Less Freedom 223
Franchising and the Law 223
The Right Way to Buy a Franchise 227
Evaluate Yourself 227
Research Your Market 228
Consider Your Franchise Options 229
Get a Copy of the Franchisor's UFDD 229
Talk to Existing Franchisees 230
Ask the Franchisor Some Tough Questions 232
Make Your Choice 232
Trends Shaping Franchising 232
Changing Face of Franchisees 232
☐ HANDS ON... HOW TO Select the Ideal Franchise—For You! 233
International Opportunities 234
Smaller, Nontraditional Locations 235
☐ YOU BE THE CONSULTANT Russia: A Rising Star for Franchisors 236
Conversion Franchising 237
Multiple-Unit Franchising 237
Area Development and Master Franchising 238
Cobranding 239
Serving Dual-Career Couples and Aging Baby Boomers 239
Conclusion 239
Chapter Summary by Learning Objective 240 • Discussion
Questions 240 • Beyond the Classroom... 241 • Endnotes 242

Chapter 7 Buying an Existing Business 246
Buying an Existing Business 247
The Advantages of Buying an Existing Business 247
Disadvantages of Buying an Existing Business 249
☐ YOU BE THE CONSULTANT The Saga of Selling My Business: Part 1 252
The Steps in Acquiring a Business 253
- Analyze Your Skills, Abilities, and Interests 253
- Develop a List of Criteria 254
- Prepare a List of Potential Candidates 254
- Investigate and Evaluate Potential Companies: The Due Diligence Process 254
- Explore Financing Options 255
- Negotiate a Reasonable Deal with the Owner 255
- Ensure a Smooth Transition 256

Evaluating an Existing Business: The Due Diligence Process 256
- Motivation 258
- Asset Valuation 258
- Market Potential 259
- Legal Issues 260
- Financial Condition 261

■ YOU BE THE CONSULTANT The Saga of Selling My Business: Part 2 264

Methods for Determining the Value of a Business 265
- Balance Sheet Techniques: Net Worth = Assets – Liabilities 266
- Earnings Approach 269
- Market Approach 273

■ YOU BE THE CONSULTANT The Saga of Selling My Business: Part 3 274

Understanding the Seller's Side 275
- Structuring the Deal 276
- Exit Strategies 277

Negotiating the Deal 279
- HANDS ON . . . HOW TO Become a Successful Negotiator 281

Chapter Summary by Learning Objective 282 • Discussion Questions 283 • Beyond the Classroom . . . 284 • Endnotes 284

SECTION III Building the Business Plan: Marketing and Financial Considerations 286

Chapter 8 Building a Powerful Guerrilla Marketing Plan 286
- Building a Guerrilla Marketing Plan 287
- Pinpointing the Target Market 289
- Determining Customer Needs and Wants through Market Research 291

■ YOU BE THE CONSULTANT Learnvest: Giving Women Control of Their Financial Lives 292

Chapter 9 E-Commerce and the Entrepreneur 331

Factors to Consider before Launching into E-Commerce 333

Ten Myths of E-Commerce 335
- Myth 1. If I Launch a Site, Customers Will Flock to It 335
- Myth 2. Online Customers Are Easy to Please 337

■ YOU BE THE CONSULTANT Selling on the Go 339
- Myth 4. Privacy Is Not an Important Issue on the Web 340
- Myth 6. The Most Important Part of Any E-Commerce Effort Is Technology 341
- Myth 7. Customer Service Is Not as Important Online as It Is in a Traditional Retail Store 342
- Myth 8. Flashy Web Sites Are Better Than Simple Ones 343
- Myth 9. It's What's Up Front That Counts 343
- Myth 10. It's Too Late to Get into E-Commerce 344

Strategies for E-Success 344

■ YOU BE THE CONSULTANT Complete Fulfillment 345

Designing a Killer Web Site 354

■ YOU BE THE CONSULTANT A Total Makeover 355

Tracking Web Results 363

Ensuring Web Privacy and Security 364

Privacy 364
Chapter 10 Pricing Strategies 373
Three Potent Forces: Image, Competition, and Value 375
- YOU BE THE CONSULTANT The Benefits of Premium Pricing 376
  Price Conveys Image 376
  Competition and Prices 377
- ETHICS AND ENTREPRENEURSHIP The Ethics of Dynamic Pricing 388
- YOU BE THE CONSULTANT A Good Deal—Or Not? 390
Pricing Strategies and Tactics 383
Introducing a New Product 383
- YOU BE THE CONSULTANT Is the Price Right? 384
Pricing Established Goods and Services 386
- ETHICS AND ENTREPRENEURSHIP The Ethics of Dynamic Pricing 388
- YOU BE THE CONSULTANT A Good Deal—Or Not? 390
Pricing Strategies and Methods for Retailers 392
Markup 392
Pricing Concepts for Manufacturers 394
Direct Costing and Pricing 394
Computing the Break-Even Selling Price 395
- HANDS ON ... HOW TO Calculate Your Company's Pocket Price Band 397
Pricing Strategies and Methods for Service Firms 398
The Impact of Credit on Pricing 399
Credit Cards 400
Installment Credit 402
Trade Credit 402
Chapter Summary by Learning Objective 402 • Discussion
Questions 403 • Beyond the Classroom... 404 • Endnotes 404
Chapter 11 Creating a Successful Financial Plan 406
Basic Financial Statements 407
- The Balance Sheet 407
- The Income Statement 409
- The Statement of Cash Flows 411
Creating Projected Financial Statements 412
Projected Financial Statements for a Small Business 412
Ratio Analysis 416
Twelve Key Ratios 417
- YOU BE THE CONSULTANT The Perils of Debt: Part 1 420
- YOU BE THE CONSULTANT The Perils of Debt: Part 2 423
Interpreting Business Ratios 428
- YOU BE THE CONSULTANT All Is Not Paradise in Eden’s Garden: Part 1 429
What Do All of These Numbers Mean? 432
Break-Even Analysis 434
- YOU BE THE CONSULTANT All Is Not Paradise in Eden's Garden: Part 2 435
Calculating the Break-Even Point 436
Adding a Profit 437
Break-Even Point in Units 437
Constructing a Break-Even Chart 438
- YOU BE THE CONSULTANT Where Do We Break Even? 439
Using Break-Even Analysis 439
Chapter Summary by Learning Objective 440 • Discussion
Questions 441 • Beyond the Classroom... 442 • Endnotes 442
Chapter 12 Managing Cash Flow 444
Cash Management 445
Cash and Profits Are Not the Same 448
The Cash Budget 449
Step 1: Determining an Adequate Minimum Cash Balance 451
Step 2: Forecasting Sales 452
Step 3: Forecasting Cash Receipts 453
- YOU BE THE CONSULTANT A Short Season 454
Step 4: Forecasting Cash Disbursements 457
Step 5: Estimating the End-of-Month Cash Balance 458
- YOU BE THE CONSULTANT In Search of a Cash Flow Forecast 459
The "Big Three" of Cash Management 461
Accounts Receivable 461
Accounts Payable 466
- HANDS ON ... HOW TO Control Your Company's Accounts Receivable 467
Inventory 469
Avoiding the Cash Crunch 472
Barter 472
Trim Overhead Costs 472
Negotiate Fixed Loan Payments to Coincide with Your Company’s Cash Flow Cycle 475
Establish an Internal Security and Control System 475
Develop a System to Battle Check Fraud 475
Change Your Shipping Terms 475
Start Selling Gift Cards 475
Switch to Zero-Based Budgeting 476
Be on the Lookout for Shoplifting and Employee Theft 476
Build a Cash Cushion 476
Invest Surplus Cash 476
\[\text{YOU BE THE CONSULTANT}
\]
Foul Play 477
Keep Your Business Plan Current 478
\[\text{YOU BE THE CONSULTANT}
\]
The Challenges of Cash Flow 478

Conclusion 479

SECTION IV Putting the Business Plan to Work: Sources of Funds 484

Chapter 13 Sources of Financing: Equity and Debt 484
Planning for Capital Needs 487
Equity Capital versus Debt Capital 487
Sources of Equity Financing 488
Personal Savings 488
Friends and Family Members 489
Crowd Funding 490
Angels 490
\[\text{HANDS ON ... HOW TO}
\]
Structure Family and Friendship Financing Deals 491
Partners 494
Venture Capital Companies 495
Corporate Venture Capital 499
Public Stock Sale (“Going Public”) 499
\[\text{YOU BE THE CONSULTANT}
\]
In Search of Growth Capital 506

The Nature of Debt Financing 506
Sources of Debt Capital 507
Commercial Banks 507
Short-Term Loans 508
Intermediate- and Long-Term Loans 509
\[\text{HANDS ON ... HOW TO}
\]
Get a Bank to Say “Yes” to Your Loan Application 510

Nonbank Sources of Debt Capital 512
Small Business Lending Companies 516

Federally Sponsored Programs 516
Economic Development Administration 516
Department of Housing and Urban Development 516
U.S. Department of Agriculture’s Rural Business-Cooperative Service 517
Small Business Innovation Research Program 517
Small Business Technology Transfer Program 518
The Small Business Administration (SBA) 518
\[\text{YOU BE THE CONSULTANT}
\]
The Never-Ending Hunt for Financing 519

Other SBA Loan Programs 520
State and Local Loan Development Programs 524
Other Methods of Financing 526
Factoring Accounts Receivable 526
Leasing 526
Credit Cards 527

Chapter Summary by Learning Objective 527 • Discussion Questions 528 • Beyond the Classroom ... 530 • Endnotes 530

Chapter 14 Choosing the Right Location and Layout 535
Location: A Source of Competitive Advantage 536
Choosing the Region 537
Choosing the State 540
Choosing the City 543
Choosing the Site 549

Location Criteria for Retail and Service Businesses 550
\[\text{YOU BE THE CONSULTANT}
\]“Pop” Goes the Store 551

Trade Area Size 552
Retail Compatibility 552
Degree of Competition 552
The Index of Retail Saturation 552
Reilly’s Law of Retail Gravitation 553
Transportation Network 554
Physical and Psychological Barriers 554
Customer Traffic 554
Adequate Parking 554
Reputation 555
Visibility 555

Location Options for Retail and Service Businesses 555
Central Business District 555
### Chapter 15 Global Aspects of Entrepreneurship 585

**Why Go Global?** 586

- Strategies for Going Global 588
- **YOU BE THE CONSULTANT** Going Global from the Outset 590
- **YOU BE THE CONSULTANT** A Really Bright Future 599
- **YOU BE THE CONSULTANT** A Small Company Goes Global 607

**Barriers to International Trade** 609

- Domestic Barriers 609
- **HANDS ON ... HOW TO** Build a Successful Global Company 610
- International Barriers 611

**Political Barriers** 613

- Business Barriers 613
- Cultural Barriers 614
- International Trade Agreements 616

**Conclusion** 617

- Chapter Summary by Learning Objective 618 • Discussion Questions 619 • Beyond the Classroom ... 620 • Endnotes 620

### Chapter 16 Building a New Venture Team and Planning for the Next Generation 623

**Leadership in the New Economy** 624

- Building an Entrepreneurial Team: Hiring the Right Employees 630
  - How to Hire Winners 631
  - Create Practical Job Descriptions and Job Specifications 635
  - Plan an Effective Interview 636
- **ETHICS AND ENTREPRENEURSHIP**
  - Honesty in Job Descriptions 637
  - Conduct the Interview 639
  - Contact References and Conduct a Background Check 641

**Creating an Organizational Culture**

- That Encourages Employee Motivation and Retention 642
  - Culture 642
  - Job Design 646
- **YOU BE THE CONSULTANT**
  - Fired over Facebook 647
  - Motivating Employees to Higher Levels of Performance: Rewards and Compensation 649

**Management Succession: Passing the Torch of Leadership** 652

- **HANDS ON ... HOW TO**
  - Make Your Small Business a Great Place to Work 653

**Exit Strategies** 660

- Selling to Outsiders 660
- Selling to Insiders 660

- Chapter Summary by Learning Objective 661 • Discussion Questions 662 • Beyond the Classroom ... 663 • Endnotes 664

---

**Appendix: The Daily Perc Business Plan** 667

**Cases** 689

**Name Index** 704

**Subject Index** 713