

FIFTH EDITION

# ENTREPRENEURIAL SMALL BUSINESS



# Entrepreneurial Small Business

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ENTREPRENEURIAL SMALL BUSINESS, FIFTH EDITION

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To our parents, who gave us  
inspiration.

To our children, who gave us  
motivation.

To our spouses, who gave us  
dedication.



# ABOUT THE AUTHORS



## Jerome A. Katz

Jerome (Jerry) Katz is a professor of entrepreneurship at the John Cook School of Business, Saint Louis University. Prior to his coming to Saint Louis University he was an assistant professor of management at the Wharton School, University of Pennsylvania. Jerry holds a PhD in organizational psychology from the University of Michigan, and other graduate degrees from Harvard and the University of Memphis.

Throughout the years he has worked in or advised his family's businesses including stints working in the family's discount department store, sporting goods wholesaling, pharmacies, auto parts jobbing, and secondary market wholesaling of frozen food. As a professor he has served as adviser to over 500 business plans developed by students at Saint Louis University, whose Entrepreneurship Program (which Jerry leads) has been nationally ranked every year since 1994.

He is also the founder and director of Saint Louis University's Billiken Angels Network, which was ranked by the *HALO Report* as one of the top angel groups in the United States. Earlier in his career he served as associate director for the Missouri State Small Business Development Centers. He has taught, trained, or consulted on entrepreneurship education and business development services in China, Portugal, Saudi Arabia, Korea, Sweden, Switzerland, the United Kingdom, Brazil, Singapore, Israel, Croatia, and the West Bank. His consulting firm, J. A. Katz & Associates, has a client list including the Soros, GE, Kauffman, and Coleman Foundations as well as the Korea Entrepreneurship Foundation, the Jerusalem Institute for Israel Studies, Sweden's Entrepreneurship and Small Business Research Institute, the International Labor Organization (ILO), RISEbusiness, the National Federation of Independent Business, the National Science Foundation, and the Committee of 200.

As a researcher, Jerry has done work on entrepreneurship, organizational emergence, opportunity analysis, and the discipline and infrastructure of entrepreneurship education. Today his papers can be found in seven different compendia of "classic" works in entrepreneurship and small business. He was a co-recipient of the 2013 Foundational Paper Award of the Entrepreneurship Division of the Academy of Management. Jerry edits two book series, *Advances in Entrepreneurship, Firm Emergence and Growth* (with Andrew Corbett, published by Emerald) and *Entrepreneurship and the Management of Growing Enterprises* (published by Sage) and has edited over a dozen special issues on small business entrepreneurship. He is on the editorial boards of nine journals: *Journal of Small Business Management*, *Entrepreneurship and Regional Development*, *USASBE Annals of Entrepreneurship Education*, *International Journal of Entrepreneurship and Small Business*, *Journal of International Entrepreneurship*, *International Entrepreneurship and Management Journal*, *International Journal of Technoentrepreneurship*, *Experiential Entrepreneurship Exercises Journal*, and *Ekonomski Vjesnik Econviews*.

Following his parents' tradition of civic entrepreneurship, Jerry has served in a variety of roles including a governor of the Academy of Management, chair of the Entrepreneurship Division of the Academy of Management, and senior vice president for research and publications of the International Council for Small Business. He serves on a number of local, national, and international boards promoting entrepreneurship and entrepreneurship education and training for students and the general public.

For these efforts, he has been a recipient of more than a dozen major professional awards including Babson's Appel Prize for Entrepreneurship Education, the Family Firm Institute's LeVan Award for Interdisciplinary Contributions to Family Business, the Outstanding Lifetime Achievement Award given by the Academy of Management's Entrepreneurship Division, as well as Mentorship Awards from the Entrepreneurship Division of the Academy of Management, and from Saint Louis University's Graduate Student Association, and Saint Louis University's John Cook School of Business Alumni Award for Outstanding Educator. He was elected the fiftieth fellow of the U.S. Association for Small Business and Entrepreneurship.

## Richard P. Green II

Richard Green is a successful serial entrepreneur who has started, built, and sold several businesses across an extraordinarily wide range of industries. His first business was an electrical sign repair company, which he began while an undergraduate student. Since then, Richard has started two other sign companies, a structural steel business, a manufacturer of stainless steel products, a real estate brokerage, a tax return preparation service, and a bed-and-breakfast. During the “go-go banking” years he held controlling interest in a state-chartered bank. More recently, Richard, with his long-time associate Richard Carter, conducted the start-up of Lineas Aereas Azteca (Azteca Airlines), served as co-owner with his spouse of a San Antonio bed-and-breakfast, the Adams House, and served as chief financial officer for a high-tech start-up, Celldyne Biopharma LLC. As a corporate entrepreneur, Richard has worked on expansion plans for companies as diverse as the Mexican airline Aerolineas Internationales, Minneapolis-based Land O’Lakes, Inc., and the Venezuelan dairy Criozuca, S.A.

Richard brings a similarly diverse set of skills to *ESB*, ranging from a pilot’s license (he was a professional pilot, instructor, and check airman for TWA) to a CPA. A late-life PhD (from Saint Louis University), he has been an assistant and associate professor of accounting at the University of the Incarnate Word and Webster University, and is currently coordinator of the accounting program at Texas A&M University–San Antonio. His academic achievements are similarly impressive, with papers in the proceedings of North American Case Research Association (NACRA), American Accounting Association Midwest, the American Association for Accounting and Finance, and the International Council for Small Business, as well as journals such as the *Atlantic Economic Journal* and *Simulation & Gaming*. Richard also authored more than three dozen articles in popular magazines on topics ranging from personal computers to financial decision making. Richard is co-developer (with Jerry) of the measures for financial sophistication in the Panel Study of Entrepreneurial Dynamics, and is senior author of *Investigating Entrepreneurial Opportunities: A Practical Guide for Due Diligence* (Sage). He has received research grants from Pharmacia Corporation and the Kauffman Foundation.

Always active in professional and civic roles, Richard’s contributions have ranged from serving as chair of the Airline Pilots Association’s grievance committee to serving on the City of San Antonio’s Air Transportation Advisory Committee. He is a member of the American Accounting Association, Academy of Management, United States Association for Small Business and Entrepreneurship, North American Case Writers Association, and the World Association for Case Method Research and Application.



# PREFACE

This book got its start with a simple question from my mother, “What is the difference between what you teach and what your father did for a living?”

We were sitting *shiva* (which is the ancient Jewish tradition of mourning), in this case after the death of my father, a Polish immigrant to the United States who had been a small business owner for almost 50 years at the time of his death in 2003. When sitting *shiva* the immediate family mostly sits and reflects and prays for a week, so my mother, sister, and I had plenty of time to talk. And talking as we did, the question came up.

I gathered my thoughts for a minute. First off, I realized that throughout his life my father had picked up on my comments about the very rare high-growth, high-tech businesses that came through my class. Somehow he thought that was who I had as my run-of-the-mill student. That was funny to me, because in teaching entrepreneurship for nearly 20 years, fewer than a dozen of the several hundred business plans I worked on involved high-growth, high-tech firms.

But thinking about what my father heard, I realized that I talk about two sets of rules, one for when I have a potentially high-growth business and another for the more conventional businesses that most of my students start and that my own father had mastered three times in his life. The answer to my mother came out this way:

<b>Conventional Small Businesses</b>	<b>High-Growth Ventures</b>
Imitation	Novelty
Autonomy	Involve key others
Control as goal	Growth as goal
Financial independence	Wealth
Fund with your own money	Fund with other people’s money
Cash flow as key	Profits as key
Cash crunch? Tighten belt	Cash crunch? Sell more

The list goes on, and you will have a chance to see it in Chapter 1. You will discover that the list exemplifies the prevention versus promotion focus discussed in Chapter 2, but this list gives you an idea of the difference. I told my mother that when I am teaching to students who have really big dreams, I try to get them to create businesses that would be innovative, using new technologies or markets. These would be businesses that could grow to be big businesses, creating major wealth for their founders. The founders are in it for the wealth. They expect to go after others’ investment in the business and they expect to give away some of their autonomy along with their stock. My father’s businesses were imitative, businesses like those already existing. He did the businesses to have a comfortable income and wanted to limit his growth to what he could comfortably control personally. No investors, no one second-guessing him. When times got tough, my father would cut his expenses; in a high-growth business that’s when it needs to sell more. My father’s business was built on his personal reputation, while high-growth firms try to maximize the reputation of the firm or its products.

I kept talking, but as I listened to myself, I realized that I had never seen a book that talked about small business the way I described it. I have students who have started such businesses—in fact, the vast majority of my students have started businesses in their own ways much like my father’s three firms. I continue to help out those alums with advice, just as I did my father and his business. But in the end, what was important was that they *were* a different kind of business, and I felt that no book really addressed it that way anymore.

That was why I decided to write *this* book, and get Richard to join me in the effort. Why Richard? Because I knew a person with a story like his would make a great co-author for a book like this. His story goes like this:

When Jerry first asked me if I would be interested in co-authoring a new small business management text, I was a bit reluctant. Where would I create time for such a daunting task? I asked myself. But when he described his vision—a text about starting and

managing the type of small businesses that we patronize every day—restaurants, beauty salons, plumbing companies, lawn care firms—I became enthusiastic. Yes, I definitely wanted to be part of a project that would deal with the 98 percent of businesses that start small and stay that way, not the 2 percent that become CNNs, Oracles, and Dells.

In many ways, I exemplify the type of entrepreneur for whom we wrote this book: people who start and operate the many ordinary enterprises with which you do business every day.

Unlike Jerry, I come from a family of employees. Neither of my grandfathers and none of my many uncles and aunts were ever business owners. My father began working as an employee while he was still in high school, and he continued as an employee until his retirement. I, on the other hand, started my first entrepreneurial enterprise the summer I was 12. I began my first “real” business the summer I was 18. In the years since, I have started several businesses and purchased three. In between businesses I have been, as my father and his father, an employee.

Not a single business that I have owned has ever been high tech, high growth, or even high innovation. I started every one either because I needed a source of income right then or because I expected to lose my current job very soon and didn’t want to live on unemployment. I have been an owner-manager in the electrical sign business, structural steel erection, light manufacturing, consumer electronics retailing, real estate brokerage, construction, farming, and lodging.

Why so many businesses, you may ask. My mother probably would say that I have a short attention span. However, the real answer is that each time I started a business I took the first opportunity available, not necessarily the best opportunity. And what was the result? Some, such as the Grandview Sign Service Co., went broke (but not before it paid for flying lessons). Signgraphics, Inc. was sold. Paul’s Sound Shop was a victim of recession. The real estate brokerage was financially very successful, but I hated the business. When my top-producing salesman finally passed his broker’s exam, I eagerly made a deal for him to buy the company. I am still actively engaged in construction and in the lodging industry.

My interest in entrepreneurship as a field of study stems from this varied experience. I asked myself many questions, including, Why did I just make a living in the sign business, while Ted Turner made himself a billionaire from the same beginnings? Why is it that Paul’s Sound Shop didn’t become a retail behemoth as Best Buy did, although both started about the same time? And am I a success because I made money in several different businesses, or a failure because none became big businesses? This book is largely the result of my search for answers to these questions.

Together, Richard and I crafted our approach for *Entrepreneurial Small Business*, and as we will point up in the business planning chapter, all plans start with a vision.

## The *ESB* Vision

In *Entrepreneurial Small Business*, you will not find a lot on venture capital, and very little on strategic concepts like “first to market.” What you *will* find is a lot of coverage of the kinds of businesses most people (and especially most undergraduate and lifelong learning students) really *do* start—small businesses in traditional industries and markets. These businesses are vitally important—we will tell you why we think so in a moment—and helping them survive has long been an art. Today like never before that art is supplemented by science, and that is where your class—and this book—can help. In *ESB* we try to build a book that can combine the art of small business survival and the science of small business. If you can get the benefit of both *before* you get into your business, you are likely to do better than those who have to get by with the advice they can catch on the fly as they get started.



*ESB* takes its information from the nearly 150 journals in entrepreneurship ([www.slu.edu/eweb/connect/for-faculty/infrastructure/core-publications-in-entrepreneurship-and-related-fields](http://www.slu.edu/eweb/connect/for-faculty/infrastructure/core-publications-in-entrepreneurship-and-related-fields)); generating new understanding of what it takes to be successful from national studies like the Panel Study of Income Dynamics (PSED) at [www.psed.isr.umich.edu](http://www.psed.isr.umich.edu), the Kauffman Firm Study ([www.kauffman.org/what-we-do/research/kauffman-firm-survey-series](http://www.kauffman.org/what-we-do/research/kauffman-firm-survey-series)), and the surveys of the National Federation of Independent Business; global studies like the Global Entrepreneurship Monitor (GEM) at [www.gemconsortium.org](http://www.gemconsortium.org); and the best of modern wisdom from experts in entrepreneurship from government, media, business, and the Internet. The point of *ESB* is to get that knowledge and make it available to you, the small business owner of today or tomorrow. You and your business deserve every break you can get, and our economy and society *need* you to survive and succeed.

Why is that so important? It turns out that small business is essential for big business; it is essential for high-technology, high-growth business; and it is essential to our communities. In a world of relentless cost cutting and global competition, big businesses outsource everything but their most critical tasks. Often the best expertise, the best service, or sometimes even the best price exists in small businesses. Whether it is janitorial services or new product development, big businesses increasingly depend on small businesses to get their jobs done.

Small business is essential to our communities in much the same way. If you come from a small town or a neighborhood that gets bypassed by the big chains, you know how important small businesses can be. Without small businesses there might be *no* places to buy products or needed services. Big business and small communities depend on small business to get the job done.

For high-tech businesses the same argument can be made, but there is also another issue—that small business *defines* the community in important ways. If you work in IT, biotech, nanotech, medicine, media, or the like, when you finish your day in the lab or cubicle, where do you want to be? In a soulless, interchangeable town full of franchised outlets or a vibrant and diverse locale? These members of the “creative class,” as Richard Florida<sup>1</sup> calls them, are demanding customers. They make their livings from their minds, and those minds crave stimulation, whether at work or at play. A big part of stimulation comes from being diverse, different, *special*, and that is where small businesses come into play. You can go to a dozen different small coffeebars and each is distinctive. Go to a dozen Starbucks and they are all pretty much the same. There are times when we all crave the expected, but the creative class also often craves the unexpected, and that is much more likely in small businesses than chains and large firms. No high-tech center can survive as a place to live without the excitement and variety a population of small businesses can provide.

The fact is that *every* small business is important for two reasons: first, because we can never be sure which ones are unimportant (if you can believe there could be such a thing), and second, it takes a lot of small businesses to support and enable one billion-dollar business.

For us, one of the lessons of the Panel Study of Income Dynamics (PSED) was that while high tech might be the ship folks hope will come in, for it to work that ship needs to be supported by an ocean of small businesses. Billion-dollar high-tech companies are rare. Less than 1 in 100,000 start-ups achieves that billion-dollar level. The irony is that *nobody* knows which of the next 100,000 start-ups is going to be that next billion-dollar business. All we can do is try and start as many as possible, knowing the more that get started, the greater the chance of that one breakthrough success.

The fact is that nearly every big business got its start as a small business. Hewlett-Packard really *did* start in a garage, and Walmart started small in rural Arkansas. They are giants today, but some part of their culture was defined in those early days when they were small businesses. When they started, none of their founders *knew* they were going to become billionaires, and neither did their investors, bankers, lawyers, or friends. You start your business, you take your chances, and the rest of us hope you make it.

In the meantime, however, those hundreds of thousands of start-ups literally help support big business and high-tech businesses. They do this by providing jobs and wages to half the country so people can buy things. They do this by providing products and services to big and high-tech

<sup>1</sup>R. L. Florida, *The Rise of the Creative Class: And How It's Transforming Work, Leisure, Community and Everyday Life* (New York: Basic Books, 2002).

businesses, and they do this by training and preparing the next generation of workers and owners. Small businesses for the past 25 years have been the major source of new jobs created in the United States. While Fortune 500 businesses have cut their payrolls by millions, the slack created has been filled by small businesses and especially those that grow to multiple sites or multiple shifts.

When you start on the path to creating your own small business, you make life better for us all. *Entrepreneurial Small Business* is dedicated to giving you the specific help you need to get started and be successful.

## The Fifth Edition of *ESB*

In each edition of *Entrepreneurial Small Business* we try to follow a theme. For the fifth edition we thought of the theme as “threading the needle,” in this case plotting a path between the traditional approaches of small business creation and the approaches inspired by lean start-up (what we prefer to call lean business practices). It is now 10 years since the first edition of the text came out, and the pace of change in entrepreneurship education has never been faster. When the fourth edition came out in 2013, Eric Ries’s book *The Lean Startup* was in its second year on the *New York Times* bestseller list, and its influence was just beginning to be felt in academia.

In the intervening years, the lean business practices movement has swept Silicon Valley, and from there much of the country. And well it should. It made popular important ideas, like actually talking to customers (aka “get out of the building!”), needing to be flexible around changing your idea (i.e., “pivoting,” or revising ideas), and finding a customer need to solve rather than inventing something and then finding customers (what they call the customer development process). To be sure these ideas aren’t really new. If you would go back and read earlier editions of *ESB* you’d see the same get-out-of-the-building wisdom tied to doing feasibility analyses and pilot testing the right way, and customer development being tied to imitating with a twist to create businesses that naturally appeal to customers.

However, the thinking and language of the lean business practices movement itself created a burst of educational creativity like none our discipline has ever seen. Much of it is marked by not just great phrases, but great ways to visualize the start-up process, like the business model canvases of Osterwald and Pigneur or Ash Muraya, the Really Big Idea screening from Alex Bruton at [StraightUpBusiness.Institute's](http://StraightUpBusiness.Institute's) or the customer development funnels of Steve Blank and Bob Dorf. These visualizations help see and think about your business in ways that are new, faster, and different, therefore a great addition to everyone’s teaching techniques. We admire these contributions and you’ll find them in this fifth edition of *ESB*.

Alongside these visualizations, a generation of developing entrepreneurs reading *The Lean Startup* thought about how the Internet could be leveraged to make the process even better, and a host of new web-based services and apps emerged to help this along. Foremost among these are the blogs of [Customerdevlabs.com](http://Customerdevlabs.com), Justin Wilcox’s remarkable efforts to make seeking out customers and workable ideas using the latest techniques and technology. But other examples abound, such as the business templates of [Xtensio.com](http://Xtensio.com) (which we’ve customized for *ESB* readers), or canvases of [BMfiddle.com](http://BMfiddle.com), or the customer development process of [Launchboard.io](http://Launchboard.io) or the readily understandable approach to valuing businesses that comes from [Valuations.com](http://Valuations.com). Today a popular term is *curating*, which means picking the best of a category and sharing it, and that’s what part of our job is—to find those nuggets of real wisdom and bring them to you.

If you look closely at the lean business practices books or movement you may notice that while we use many of those ideas and techniques, we don’t follow their approach very closely. In the end, it comes from being true to our own philosophy. We started the preface by comparing traditional small businesses to high-growth firms. Lean business practices were created in Silicon Valley, the world’s greatest concentration of founders and investors pursuing high-growth entrepreneurship. But there are so many people creating and investing that no one has time for a business plan—to write them or to read them. People in Silicon Valley proclaim “the business plan is dead!” To match their pace you create a pitch deck, a business model canvas,

and a set of financials. Internet-driven businesses are the bread-and-butter of Silicon Valley's industry.

But 99 percent of us starting businesses are not in Silicon Valley, and the vast majority of us are not starting Internet-driven or app businesses. We get funding from friends, family, and bankers, not venture capitalists roaming the coffeeshops. When regular people (and even most angels) in the rest of the country consider investing, they want to see a business plan. And for businesses that will take years to become successful—most manufacturing, most professions, most services, and even most retailing and wholesaling—you need to think through how you will operate and fund yourself for the years it will take until your business matures into its best self. An app can go from zero to operational in a weekend (that's what Startup Weekends and hackathons are all about; look at the story of [InvisibleGirlfriend.com](http://InvisibleGirlfriend.com)) and live through 10 iterations within the first week. An accounting firm, or a restaurant, or new backpack will take longer to get going and make successful.

In Silicon Valley, entrepreneurs are thick on the ground. There is expertise everywhere, so you ask for it, or trade for it, or buy it. In Silicon Valley you are known by the team you've assembled. The team is the best indicator of your business's capabilities. But in the rest of the country, the majority of businesses consist of only the entrepreneur, or the entrepreneur and one other person, and often while there are other entrepreneurs and help around, it takes a lot more effort to find them and get what you need. So an approach where you, the entrepreneur, have to be more self-reliant, more do-it-yourself, is essential to getting done the crucial jobs of starting a business everywhere but Silicon Valley. *ESB* talks about accounting, marketing, human resources, and a host of other topics in more depth than lean business practices or business model canvas approaches typically do. In the end, lean business practices are all about the high-growth (aka "scalable") businesses, while *ESB* is focused on the traditional "main street" businesses that make up the bulk of our economy and our lives. Where lean approaches can help main street businesses, we use them. But we stay true to our focus on the businesses you are most likely to start.

As you will see in the acknowledgments, we get feedback from many professors, instructors, and students. We work hard to use these insights to improve the coverage, flow, and usefulness of the text for students and faculty alike. This involves a few major changes among many small changes such as these:

*Chapter 1:* The chapter is updated in terms of the statistics on small business and the websites, people, and businesses profiled. We've added material on the entrepreneurial process to help better explain our approach to the start-up process, and help those familiar with lean business practices get a feel for the *ESB* approach. We've also included a new mini-case at the end of the chapter. Updated carryovers from prior editions include the opening vignette about Paul Scheiter of Hedgehog Leatherworks. This student-started business will appear throughout the text, along with Tim Hayden (whose vignette opens Chapter 8) so you can see how a small business handles different types of challenges. This chapter also provides an overview of the critical success factors for people starting a small business to help orient readers to best practices, and it introduces the three types of entrepreneurship—corporate, social, and independent.

*Chapter 2:* This chapter talks about the personality of entrepreneurs, pretty much unchanged from the prior edition, except for the updating of stories, URLs, and statistics. We added the business life cycle here (which was originally in Chapter 20) to dovetail and build on the career cycle of entrepreneurs. We also increased our coverage of late career entrepreneurs to better fit with the latest work on second career entrepreneurs, including veterans and family caretakers who can now leave home.

*Chapter 3:* This chapter starts with a new vignette on Summer Albarcha, and continues with updated statistics, websites, and skill modules. We've added Mike Morris's PROFIT model to help people remember the types of resources, and generally beefed-up our coverage of resources with new insights from the resource dependence approaches from entrepreneurship research.

You'll also notice in this chapter that some of the Thoughtful Entrepreneur boxes from earlier editions have been moved into the text or eliminated.

*Chapter 4:* Revising this chapter was one of the major goals for this edition. We've increased and updated the coverage of opportunity and opportunity-based definitions of entrepreneurship, the sources of business ideas, and the types of innovations small businesses develop. There is new coverage of our own approach to the business model canvas and customer profile (both of which are also available as templates on [Xtensio.com/edu/esb/](http://Xtensio.com/edu/esb/) and McGraw-Hill Connect at [connect.mheducation.com](http://connect.mheducation.com)), as well as new material on pains, gains, A/B testing, and the Really Big Idea screening process. All of these new models are designed to work with the existing feasibility analysis, so you can see how the different approaches look at the same business idea in different ways. Tim Hayden is featured in the mini-case (his story was featured in the opening vignette in Chapter 3 of the fourth edition).

*Chapter 5:* Part-time businesses not only remain an important path to ownership, but are also increasing as a portion of all new business entrants. We replaced the opening vignette to tell the story of the Bedford Bee Honeybee Service. This story is an exemplar of how a long-time avocation can change into a profitable business, yet remain a part-time endeavor. We also added a section on the increasingly popular pop-up, episodic, and hybrid forms of businesses. Of course, we updated the graphs and tables on numbers and types of business establishments. Finally, we moved the discussion of lean methods to Chapter 6 and expanded the discussion to address more than just lean business practices techniques.

*Chapter 6:* This chapter was extensively revised to include the results of new research. A new first section was added to discuss the strategies for going into full-time business. Effectualization, bricolage, bootstrapping, and lean business practices are each explained and examples are provided. A new Small Business Insight discusses the success of Andy and Chad Baker in using the principles of effectualization. Finally, a new last section was added to this chapter that discusses the essential issues of business exit.

*Chapter 7:* In addition to general updating of statistics, stories, and websites mentioned, this chapter was tweaked slightly to better clarify the close relation between the value proposition (central to lean business practices and marketing-driven approaches) and the distinctive competence/competitive advantage (central to strategy and financial approaches). Much of this material came from reframing benefits and industry dynamics along with some changes in the post start-up tactics section. Skill modules were also updated.

*Chapter 8:* With so much change swirling around business planning and business plans, this was destined to be a chapter seeing major changes. From a new opening vignette to a new business plan outline with extensive changes to the description of what goes in each section of the new, shorter business plans, the chapter was one of the most heavily revised. Additions include a comparison of business write-ups (Table 8.3), and a comparison of the types of business plans students will see (the *ESB* model, the ColterDurham example plan, the SBA Online Business Plan, and LivePlan, which is sometimes bundled with *ESB* by McGraw-Hill) so students can get a sense of the variability and commonalities of business plans. This discussion is part of a section called "The Mechanics of a Business Plan." There are several of these types of sections in *ESB5e* intended to gather concrete, how-to advice on implementing key elements of the business, over and above our skill modules. The section formerly called "Presenting Your Plan" is now titled "Pitching Your Plan" and has been extensively revised to fit the latest findings on what makes a successful pitch deck—one of the key commonalities of traditional and lean business practices approaches to presenting. The ColterDurham plan, which was a winner and finalist in business plan competitions, is new to this edition.

*Chapter 9:* We knew that entrepreneurship was becoming more customer-centric, and we planned to do a major revision to this chapter to better capture the customer and customer needs as central to the start-up validation and creation process. So we focused all customer-related materials, which were in various chapters in the fourth edition, in two central locations: Chapter 4, for the initial screening of possible customers, and here in Chapter 9, to "go deep" once you

know who your customers should be. To do this we updated our customer interviewing material and brought the marketing research material on primary and secondary research and marketing plan development from Chapter 12 (the PizzMO marketing plan will remain available online on McGraw-Hill Connect Library). We added new ideas on the marketing process, understanding the customer, crafting the value proposition, TAM/SAM/SOM segmenting, and the customer-driven business in the section “The Perfect Customer.” The product discussion will be familiar to those who read the fourth edition, but they will notice that the product and service life cycle discussions moved here from Chapter 20 in earlier editions. Pricing, which used to be in Chapter 9, has been moved to Chapter 11.

*Chapter 10:* This chapter saw significant revision in part due to the impact of lean business practices approaches and also because of the continuing changes in the promotion and advertising arena as the Internet becomes ever more dominant and accessible as a promotional medium. Changes included expanding the promotion funnel to better reflect the Blank and Dorf customer development process funnels of the lean business practices process. Value proposition was moved from Chapter 10 in *ESB4e* to Chapter 9 in this edition. Branding saw significant growth, including adding brand development and organizational identity creation, and including a “how-to” section showing the techniques for implementing brand and identity in your business. The section “Conveying Your Message” was rewritten to combine public and press relations with advertising. A new section titled “Developing Your Promotion Strategy” was added. Building in one of the major strengths of lean business practices, the “Customer Retention: Keeping and Growing Customers after the Sale” section was extensively revised to include keeping and growing customers along the lines of Blank and Dorf’s approach, and includes a mechanics-of-type section to help students apply the ideas. Two new skill modules were included titled “Creating Your Brand Promise” (**Skill Module 10.3**) and “Getting Smart with Google Analytics” (**Skill Module 10.4**), while former **Skill Module 10.2**, “Writing a Press Release,” was dropped in favor of a new online press release form hosted by [Xtensio.com](http://Xtensio.com) and McGraw-Hill Connect for *ESB*. There are also templates for your business’s press kit and your online media strategy introduced here with the templates available on [Xtensio.com](http://Xtensio.com) and McGraw-Hill Connect. The “Sales Promotions” section moved from this chapter to Chapter 11.

*Chapter 11:* This chapter will look new to those used to *ESB*’s earlier editions, but its content will be very familiar. The “Pricing” section moved from Chapter 9 in *ESB4e* to Chapter 11, and “Sales Promotion” moved from Chapter 10 and expanded considerably. Otherwise, the “Distribution” and “Location” sections have the same content, updated where needed. The chapter does include discussion questions and experiential exercises from other chapters, following material moved here. And we’ve included a new mini-case at the end of this chapter based on a student’s story of the first teenagers to get funded on *Shark Tank*.

*Chapter 12:* The changes made to this chapter all address comments received from instructors who have adopted *Entrepreneurial Small Business* for their classes. The primary changes are in the sections on financial reports and the budgeting process. We replaced the illustrations to make them easier for students to understand. We also revised the wording of the explanations to simplify them and to make them more meaningful to students. Specifically, we added a list of the assumptions on which the budget illustrations are based, and include a side-by-side comparison of the actual ColterDurham business plan financials and the changes we made to be able to illustrate specific budget techniques. Of course, we also updated all references to websites and removed “dead” links.

*Chapter 13:* This chapter, which deals with the issues of managing cash flows and completes the budget process, has been somewhat condensed from the prior edition. This was done to remove redundant material and to make the explanations and examples easier for students to understand. We replaced the opening vignette with a cautionary tale based on the failure of Zirtual, Inc. In the section dealing with the importance of money management we specifically explain both what is important and the specific problems encountered in managing cash flows.

We removed the discussion of float because it has become moot in today's world of electronic check clearing. Finally, we elaborated our explanation of how providing cash to customers affects the cash flows of the business.

*Chapter 14:* The new opening vignette of this chapter tells the story of Mary Lynn Schroeder, who as an accidental entrepreneur used bootstrapping, lean methods, and grant funding in creating her business which now has gross sales exceeding \$1 million annually. We made extensive improvements in the explanations in the first section which defines equity, debt, and gift capital. We expanded and elaborated on the newly released regulations for Title III of the JOBS Act for making small public offerings. The only other major change from the prior edition is in the discussion of determining the “right” kind of financing. Here we greatly simplified the discussion of cost of capital and provided simple examples to help students with the concepts.

*Chapter 15:* The most important change made to this chapter is the addition of a section on the importance and value of documenting business processes. We also provide a specific example of one method to conduct documentation in the form of a documentation template. The remainder of the chapter has been extensively rewritten to add emphasis to the most important ideas, changing the format to include more numbered and bulleted lists to make reading the material easier. We also added discussion questions concerning business documentation.

*Chapter 16:* We have condensed the content of this chapter dealing with risk and insurance by removing redundant content. We also removed the discussion of financial risk because this topic is extensively covered in the accounting and finance chapters. In the discussion of insurance for small businesses, we added a discussion of the implications of the Affordable Care Act for small businesses.

*Chapter 17:* This chapter saw moderate revision, with material updated to reflect recent changes in laws and websites providing help to students checking out legal issues. New material includes more information on how to check out lawyers online, updated free and commercial sources in “Can I Do This for Free?,” and also added a new section titled “Nonprofits and Social Benefit Organizations” to help social entrepreneurs and charity founders alike. The Sarbanes-Oxley material in this chapter is better tied to other coverage in Chapter 14 and expanded and renamed “SOX and Dealing with Big Businesses.” Based on student suggestions, we added a section “What Is the Right Level of Paranoia?” to help readers determine when to worry and when not to. The “Contracting” section reflects updates in Internet contracting, while opinions of patentability and provisional patents were added to the patent section, along with an expanded consideration of patents versus trademarks. The trademark section also now discusses how to use trademarks to bolster your brand.

*Chapter 18:* This chapter saw general updating along the lines of the legal chapter, for the same reasons of the rapid changes in this regulation-rich topic. We added more Internet-based recruiting sites, took the Small Business Insight “Go Viral” from *ESB4e* and built it into the narrative, and moved the “Mavens & Moguls, a Marketing Strategy Consulting Firm” Small Business Insight within the chapter. We have a new list of rewards for employees, and made major additions to the topic of selecting advisers and partners, resulting in a change of the section title from “Entrepreneurial Leadership” to “HRM at the Founder's Level.” We replaced Experiential Exercise 2 with an interactive budgeting game from the *New York Times*, and added Experiential Exercise 4 to leverage [Salary.com](http://Salary.com).

One of the goals for this edition was to help offset the “size creep” that happens to all texts as new ideas emerge and get added into the existing set of ideas. This makes the text longer for students, and longer also translates into more expensive. Our strategy in part was to cut back on materials faculty have told us weren't used much, like the end-of-book cases, suggested readings, and videos. We also worked hard to slim down chapters, and in fact dropped two chapters in this edition, bringing us from 20 chapters to 18. The key ideas from those missing chapters are still in the text, but integrated with related ideas. Even the business plan was shortened, from 40 to 18 pages. While that was driven by changes in business planning in the real world, it also did fit with the intent for this edition.

When we look at the detailed list just discussed, we recognize that about half of the ideas come from our own experience and discussions with our friends and colleagues at work. But it is important to recognize that the other half of the ideas, improvements, corrections, and revamps come from the suggestions of readers like you—faculty and students who are using *Entrepreneurial Small Business* to help them pursue their dreams of business ownership.

You are our target customer. Your satisfaction or dissatisfaction is central to our making this text work. Do you have a better idea about how to talk about something? Did we get something wrong? Is there something we're missing that could help others in their entrepreneurial quests? Tell us. Richard's email is [richard.green@tamusa.edu](mailto:richard.green@tamusa.edu) and Jerome's is [katzja@slu.edu](mailto:katzja@slu.edu). We try to respond to all emails, and as you can see, we do try to improve the book based on your feedback.

## The *ESB* Package

Professors reading this are probably wondering how all this translates into helping them teach their courses. One way we hope to help is through providing “imitation with a twist,” which you will learn more about in Chapter 7. There are many other small business texts out there, and from an author's perspective they can be intimidating because so many of them *are* so good. So how can *ESB* expect to get your attention? As you will find as you look through the book, all the major topics you expect to see are present—that's the imitation that is basic to all mature industries (such as small business education).

What adds value are those aspects of the book that are distinctive—our “twists.” We give the specifics on how to sell, how to negotiate, how to ask for help, and how to handle a crisis, building from the best of research and professional practice. You will see it in small touches in the chapters, like in our discussion of issues such as when you get or use gifts as a way to fund start-ups, or why an LLC should be your default legal form of organization. We tried hard to give students the easiest introduction possible to the potentially frightening issues of accounting and financial reports.

*ESB* is also the first book we know of that has devoted a chapter to the special needs and problems of part-time businesses. For this edition we have tried to cover the broadest possible range of writing projects used in small businesses—not just business plans, but feasibility analyses and industry analyses, and we've added business model canvases and Really Big Idea screenings for rapid assessment of possibilities. We include real-life, high-quality *student-written* examples of the reports we expect students to work up as they start their business. And all the while we tried to keep the *ESB* vision in the forefront—asking ourselves what the absolutely critical things are for our students to know in order to start their small businesses and succeed in them despite a lot of competition. We have tried whenever possible to focus on providing only what is needed, and what would be relevant for the traditional small businesses our students most often start.

## The *ESB* Role/Goal/Celebration

This book started with a wife and mother's simple question about the difference between the traditional small businesses her husband started and the high-growth ventures she heard about in her son's stories. Today there is a groundswell of converging ideas in business, economic development, job creation, and government showing us that the revitalization of those traditional small businesses is a key component of reviving our economies and communities.

That revival is more important than ever. Economists have shown us that over the past 50 years the percentage of self-employed people has gone down. With the baby boomer generation reaching retirement, even more small businesses will be closing in the next five years. At a time when entrepreneurship has never been more popular in the media and public thought, the number of people starting businesses seems to be steadily declining.

Some believe that it is too difficult to start the everyday sorts of small businesses. Some believe potential entrepreneurs are turned off by the riskiness of going into business. We continue to work on this book because we believe, and say repeatedly in the text, that “help helps.” Research shows that entrepreneurs who get help do better and survive longer. They beat the odds and decrease the riskiness. The help can come from paid professionals, from free sources like the SBA, SBDCs, or SCORE, or from schools and training programs, or even books like this one. *ESB* is here to give you a start and point you to the other resources that can make your entrepreneurial dreams work out and be successful.

In many ways it has never been easier to start businesses. You can have a professional-looking online business operating in a couple of hours. With the baby boomer retirements at hand, literally millions of businesses would be available for purchase, with training thrown in by the founder and convenient terms to pay back the purchase from cash flow (doing it that way is preferable to shutting down a firm and letting employees and customers go). The same studies that show declines in everyday self-employment also say that high-growth businesses are growing in number. So the entrepreneurial world is full of opportunities, and books like this are intended as a gateway and support to those efforts of yours.

For students, we want *Entrepreneurial Small Business* to be your handbook, lightning rod, and motivator. When you read this book in your hands or online, mark it up! If something is important to the way you plan to run your business, dog-ear the page or print a copy from the online version to keep it with you. Write how something applies to your proposed or existing business. If you have not started a journal for business ideas, start using the margins or end pages of this book to hold them. If you are serious about becoming an entrepreneur and we did *our* job right, then success is measured in the material you keep and use from our book. If you are serious and the book did not do the job for you, let *us* know what we need to do better. We got this far on the wisdom of a network of a lot of students and faculty, and as you go through this semester, you become part of the network, too.

For faculty, our job as educators is not just to know about the fortunes of small business, and not just to help make this work, but to *celebrate* this. Academics have the power to legitimize through their acceptance and support, and they have the power to propagate through their contacts with hundreds of students and businesses a year. But most of all, we have the power to excite and to energize, most often through our own energy and support and occasionally even by the new opportunities and vistas we open for our students. You and all of us collectively have an important contribution to make to the revitalization of small business as a key component of the economy, just doing what you do every day.

We want to be a part of that effort with you—providing the examples to celebrate, the realities that help prepare our students for what they will face, and most of all the skills, knowledge, and resources that will prove to them that most critical of concepts in life and in small business success—“help helps.”

We are the authors behind *Entrepreneurial Small Business*. We want to help. Let us know how we could do so better in the future. Welcome!

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## ENTREPRENEURIAL SMALL BUSINESS:

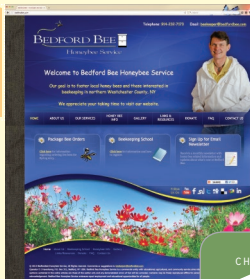
*Entrepreneurial Small Business* provides students with a clear vision of small business as it really is today. It focuses on small businesses that students might actually start versus high-growth firms dependent on venture capital. It presents the *realities* small business owners face every day and strategies for those starting or maintaining a small business.

There are several chapters that emphasize the distinct focus of this book.

CHAPTER  
**5**

### Small Business Entry: Paths to Part-Time Entrepreneurship

■ D.J. Sheehy is a former partner business, Bedford Bee Honeybee Service, the operation with a beekeeping school and honeybee services for clients in Westchester County, New York. What business model did you use when you decided to go part-time? Source: "MyPartTimeBusiness.com"



### Chapter 5: Small Business Entry: Paths to Part-Time Entrepreneurship

Part-time businesses are tremendously important as they are a major portion of all current entrepreneurship, and it's the way most people enter into self-employment. This chapter discusses the benefits—and challenges—of part-time entrepreneurship.

**SMALL BUSINESS REALITY:** 75 percent of those starting a business already work full time for someone else and are pursuing their new business part time.

CHAPTER  
**10**

### Small Business Promotion: Capturing the Eyes of Your Market

■ Adelle Sauer's teenage friend, Beacon Street Girls, is a brand of two market audiences. What challenges are posed to this small business by its double-market approach? How might this approach work to Sauer's advantage? Source: "E-press Production, Inc."



### Chapter 10: Small Business Promotion: Capturing the Eyes of Your Market

The key to building a successful business is to discover and meet customer needs. With this in hand, promoting your offering and its value to prospective customers is essential to making sales. This chapter shows how to build customer profiles, conduct unbiased interviews, translate these findings into value statements, and promote your firm, products, and services using social and conventional media.

**SMALL BUSINESS REALITY:** Today nearly all new start-ups rely on a social media strategy as an essential base on which to build their advertising, press relations, and public relations strategy.

CHAPTER  
**13**

### Cash: Lifblood of the Business

■ Maren Kate Donovan built Zirtual from an idea to a company with thousands of customers and hundreds of employees. But, each one Monday morning in August 2015, Zirtual shut its doors with no warning to customers or employees. What do you think about it? Actual: had been your business? Source: Zirtual

For the want of a nail the shoe was lost;  
for the want of a shoe the horse was lost;  
for the want of a horse the rider was lost;  
being overtaken and slain by the enemy,  
all for the want of a little care about a horseshoe nail!

© Peter Richard's Business 101  
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### Chapter 13: Cash: Lifblood of the Business

All small businesses must understand how to manage the business's cash flow. This chapter focuses on the basics of cash, budgets, shortages, and strategies to deal with cash flow problems.

**SMALL BUSINESS REALITY:** About 55 percent of small businesses that fail do so because of cash flow problems.

# Finally . . . a book about the kinds of businesses your students are most likely to start!

## Business Plans

Business plans are a part of every small business course. A business plan may not be necessary to start your business, but it is critical to plan and understand your business in any circumstance.

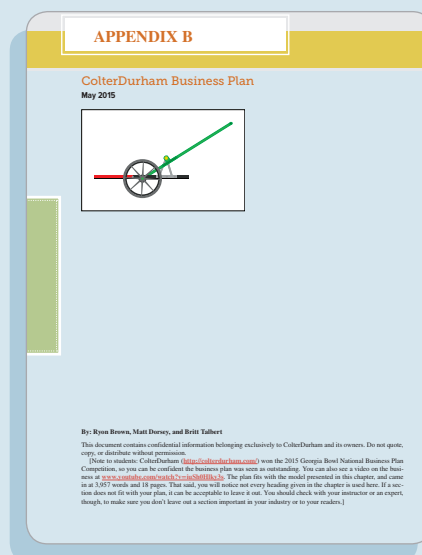
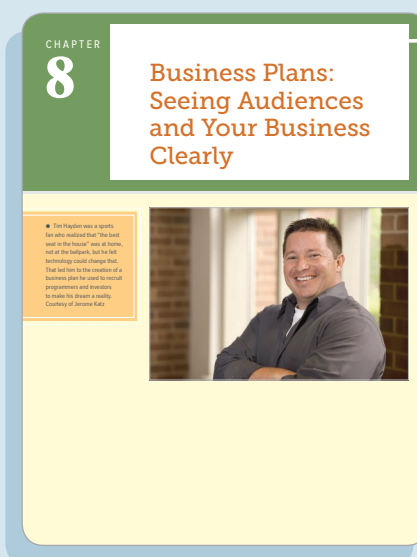
Chapter 8 includes practical information helpful to any small business owner, such as:

- The elevator pitch—how to quickly get people interested in your business.
- How to translate canvases into business plan sections.
- How to write your executive summary—a key component of the business plan.
- Seven types of business plans and what components they should include.
- Tips on presenting your plan, such as the 13 slides of a business plan presentation.

Chapter appendixes contain samples of important business plan components:

- Feasibility Plan (after Chapter 4)
- Business Model Canvas (in Chapter 4)
- Industry Analysis (after Chapter 7)
- Cover Letter and Résumé (after Chapter 8)
- Full Business Plan (after Chapter 8)

Additional business plan supports include online examples of feasibility plans and business plans in the Connect Library. One online feasibility study and business plan focuses on the same company, allowing you to see how the business developed.



# ESB Features

To help students learn more about the benefits of small business ownership, as well as the challenges many small business owners face, *ESB* is full of practical advice and examples from true small businesses in a variety of industries. Its focus is to give students the tools and knowledge they need to go out and start their small business.



**280 PART 3** *Management in the Small Business*

**SKILL MODULE 9.1**

### Interviewing Customers in an Unbiased Way

One of the best examples of how to do unbiased interviewing comes from marketing expert Justin Wilcox of Customer Development Labs (<http://customerdevelopment.com/2013/10/05/how-to-interview-customers/>). He proposes a five-question survey, what he calls his "customer interview script":

1. What's the hardest part about **(problem context)**?
2. Can you tell me about the last time that happened?
3. Why was that hard?
4. What, if anything, have you done to solve that problem?
5. What don't you love about the solution you're using?

Justin points out that the hardest part of preparing the interview is figuring out what the problem context is. He says you should look for a situation that occurs frequently enough or is painful enough for the interviewee to warrant solving. So if you imagine yourself building this for "homeowners, don't ask "What's the hardest part about finding a good vegetarian restaurant in a new city?" That question integrates what your product is. Asking "What's the hardest part about being a vegetarian?" is so broad you could get lots of irrelevant answers. A good balance would be asking "What's the hardest part about eating out as a vegetarian?" The aim here is to learn from the solution and the video explaining his approach.

Justin also offers a free online script generator at <http://customerdevelopment.com/scripts/> to include a video explaining how to use the generator. Armed with this script, your next goal is to go out and interview potential customers your instructor will give you a target market. Record the interviews so you can catch everything your computer probably has a recording tool to take detailed notes on each person, including his or her demographics and how you can get back in touch with the individual.

You analyze the results by first looking at the problems your interviewees were trying to solve (question 1). This is often called the customer job. Questions 1, 2, and 3 tell you about the pains your customers are experiencing or the gains they wish they could achieve. Question 4 tells you about the ways they try to deal with the pain or gain right now, while question 5 tells you where there is a possibility for something better. Together, the answers to these questions help you understand how your potential customers are thinking about the situation. If they are spending time and money on alternatives that they don't think do the job, then their pains can point you in the right direction for developing a product that might resonate.

You take these answers and the demographics and build one or more customer profiles to translate the results into a personal example of the kind of people you will keep in mind as you develop and sell your product. The resulting report is often done as a single-page profile, shown in Skill Module 9.2.

What if your unbiased customer interviews show your basic idea for a business doesn't hit a responsive cord? There are two possibilities: (1) change or pivot your product or service to better fit with what customers are talking about, or (2) change or pivot your customer base to find people who would be willing to buy what you propose. If neither works, you probably need to look at another business idea. But if your interviews show a path to creating a worthwhile product or service, it is time to do an even bigger customer research effort using all the tools at your disposal, which we cover next.

**Target Market**  
The point of identifying the customer roles and building the customer profile is to help you clarify exactly who would be the best customer for your business—the person who would be highest most in the product or service you're offering, and because of this would be your best and most loyal customer. That "perfect fit" customer is called your target market.

**customer job**  
The term given to what a potential customer is trying to do—perform or complete some sort of task, solve some problem, or try to achieve some outcome. The target of the job is often the key to what a proposed product or service is intended to help.

**pivot**  
Typically a term describing a change of direction in the thinking of an entrepreneur or a firm, often based on new data or other findings.

## Skill Modules

Skill modules are a key component of this text. They are included in every chapter to help students understand and practice critical competencies for small business owners. These are resources that students can use in the course and that they can continue to use as they plan or grow their small business.

Examples include:

- Competency Self-Assessment
- Checklist for Maximizing Success on eBay
- Sweet and Short Industry Analysis
- The Art of Closing
- Finding SBIR Grants

## Focus on Small Business

Each chapter opens with a vignette that highlights an entrepreneur and an aspect of a small business that relates to the chapter concepts. Discussion questions are included for students to consider as they read the chapter.

**LO**

After you complete this chapter, you will be able to:

- LO 1-1 Understand the scope of small business in the United States.
- LO 1-2 Differentiate between small businesses and high-growth ventures.
- LO 1-3 Discover the rewards entrepreneurs can achieve through their businesses.
- LO 1-4 Dispel key myths about small businesses.
- LO 1-5 Identify actions key to becoming a small business owner.
- LO 1-6 Recognize how small businesses are important to our economy and your community.
- LO 1-7 Recognize the seven key strategies of the entrepreneurial way.

**LEARNING OBJECTIVES**

**Focus on Small Business: Paul Scheiter, Hedgohog Leatherworks**

From a young age, Paul Scheiter had an insatiable passion for the outdoors. As a child he spent his free time exploring, hiking, and camping. As he grew older, Paul began to hone his skills as a minimalist, taking with him only the bare essentials necessary to live in the woods. He quickly learned that the most important tool for survival is a well-made, reliable, sharp knife. The single tool in the hands of a skilled person could be used to provide shelter, water, fire, and food—everything one needed to remain comfortable in the wild.

In 2006, Paul made his first significant investment in a knife. It was a \$300 state-of-the-art tool that would hardly just about any survival task under the sun. Upon purchasing the tool, he was shocked to discover this expensive knife came with a cheap plastic case (called a "sheath"). The knife itself inside the sheath, which made noise, dulled the sharp edge, and was uncomfortable to carry. Ultimately the sheath broke while Paul was hiking, and he lost the knife.

After this bad experience, Paul determined to make a better product. He sought the guidance of a former St. Louis County police officer, Bill Stronach, who had become a master knifemaker in his retirement. Bill helped Paul design a leather sheath that was far superior in fit, finish, strength, and comfort. After benefiting from Bill's mentorship through the early stages of learning his craft, Paul was inspired to share his product with the world.

Paul launched his business, Hedgohog Leatherworks, from his dorm room at Saint Louis University (SLU) while simultaneously declaring his major in entrepreneurship. He connected with the faculty and with the university's network of entrepreneurs to absorb as much business knowledge as possible. By finding great mentors, Paul built and implemented a plan for growing his business, setting it along the way through various business plan competitions. Eventually, Paul won second place in the Global Student Entrepreneurship Awards, a worldwide competition for full-time college students who run full-time businesses.

Today Hedgohog Leatherworks is the world's leader in producing high-end knives and sheaths. Paul's products (the top choice of many elite military operators) are in wide use by expert survival instructors, and are the prized possessions of many people who appreciate "great-stuff" American craftsmanship. Paul's sheath and knife (an innovation he added as his business grew) were one of the prizes given to

## Small Business Insight Boxes

These boxes include “under the radar” advice from real small business owners and helpful statistics from small businesses around the country.

Small Business Entrepreneur Plus: Your Entrepreneurship CHAPTER 4 581

**SMALL BUSINESS INSIGHT**

**Entrepreneur's Top 500 Number One Franchise in 2016**

James J. Landolt (Jimmy John's) started a sandwich shop in Elgin, Illinois, when he was only 19 years old. He had recently graduated from high school, and in his own words, “I graduated second in class in my high school class, so my options for college were slim to none.” His father, an army colonel in the Reserve, wanted Jimmy to enlist. But Jimmy had other plans: He wanted to open a business. Finally, his father made him a deal: Dad would put up \$25,000 to start a business, if Jimmy did not make a profit in his first year, then it would be the Army's loss.

Jimmy found a garage that had been renovated for a pizza parlor. The building was in Charleston, Illinois, in an area full of bars. Jimmy reasoned that the site was perfect. Charleston is a college town, home of Eastern Illinois University. College students drink a lot, and when they drink they get hungry and then want Jimmy—sizzling gourmet subs.

Jimmy made that first year profit and soon bought out his dad's share of the business. A few years later he had 90 sandwich shops, most of them franchised. Today there are 2,366 Jimmy John's Sandwich Shops, and the number keeps rising.

**Trade name franchising**  
An agreement that provides to the franchisee only the rights to use the franchisor's trade name and/or trademarks.

**Product distribution franchising**  
An agreement that provides specific merchandise products that are resold by the franchisee in a specified territory.

**Convenience franchising**  
An agreement that provides an organization through which independent businesses may combine resources.

**Business format franchising**  
An agreement that provides a complete business format, including trade name, operational procedures, marketing, and products or services to sell.

Franchising has become the predominant method by which entrepreneurs open new businesses. Depending on who is doing the counting, somewhere between 1 in 10 and 1 in 8 businesses currently operating in the United States are franchised operations. Today, in addition to fast food, nearly every product or service from accounting to zoology is available from franchised businesses.

The most important reason that franchising has become such a successful way of doing business is that a well-run franchise offers a win-win situation for both the franchisee and the franchisor. Franchisees have the opportunity to experience high growth and rapid market penetration without having the requirement to raise capital in large amounts and to obtain skilled, experienced managers in large numbers. Franchisors are able to partner with an established business that has proven success.

Franchising provides an entrepreneur with the opportunity to own a small business quickly while avoiding the high risks of a start-up. As we have discussed, starting a new business from zero is very expensive in terms of demands on the entrepreneur. Most start-ups have limited capital resources and very little room to make business mistakes while learning what is needed to make the business succeed. Franchisees have survived their own start-up phase of business and have determined the “recipe” for success. For this reason, franchises (on average) have lower failure rates and shorter times to achieve positive cash flows and business profits.

**Advantages of Franchising**  
Let's take a look at the specific characteristics of franchises that offer such advantages to would-be entrepreneurs.

## End-of-Chapter Materials

End-of-chapter materials include:

### CHAPTER SUMMARY

An end-of-chapter summary is included, bulleted by chapter objectives, to help students review the chapter material and study for tests.

### DISCUSSION QUESTIONS

Discussion questions are included in each chapter that can be given as assignments or that can be used for in-class discussion. Suggested answers are included in the Instructor's Manual.

### EXPERIENTIAL EXERCISES

The experiential exercises include brief activities students can complete to get more information on the chapter topic, to look for additional resources, and to help build their competencies in a certain aspect of small business ownership.

### MINI-CASE

A mini-case for each chapter is included as an additional opportunity for the student to apply the lessons of the chapter.

80 PART 1 Entrepreneurship and Small Business

**KEY TERMS**

cognition, 30 action, 30 process, 30 perseverance, 30 promotion focus, 31 comprehensive planners, 31 critical-point planners, 31 opportunistic planners, 31 reactive planners, 31 habit-based planners, 32 professionalization, 32 standard business practice, 32 expert business, professionalization, 32	specialized business, professionalization, 32 restaurant business, professionalization, 32 competence, 34 key business functions, 35 industry-specific knowledge, 35 resources competencies, 35 dissemination competencies, 35 business life cycle, 36 venture stage, 36 professionalization, 37 liability of resources, 37 success stage, 37	slack resources, 37 resource maturity stage, 37 ideal stage, 37 organizational culture, 40 family business, 41 role conflict, 42 time management, 42 succession, 43 exit strategy, 46 certification, 46 second career entrepreneurs, 47
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**DISCUSSION QUESTIONS**

1. What are the different aspects of the entrepreneurial personality?
2. What would be the likely impact on a start-up if the entrepreneur had a strong promotion focus and a weak prevention focus?
3. Could someone with good industry-specific knowledge but low competencies in small-business skills be successful as an entrepreneur in that industry? Why or why not?
4. When does it make sense to create a business using a restaurant approach to professionalization? Why is that so?
5. What are the stages of the small business life cycle? What single do-high-growth ventures go through that other forms of small business do not?
6. What are the strengths and weaknesses of a boot?
7. What is the major challenge facing women- and minority-owned firms? How can this be solved?
8. What makes the situation of second-career entrepreneurs problematic? What can they do to correct their way?

**EXPERIENTIAL EXERCISES**

1. Which of the aspects of the entrepreneurial personality describes you the best? Be ready to explain why.
2. Which entrepreneurial competencies do you possess? Be ready to provide examples and explain why you made those choices. You can use the result of Self Module 2.2 to aid you in this.
3. Pick a small business with which others in the class are familiar and analyze what level of professionalization they display. Be ready to explain the basis for your classification.
4. Select a local family business owner or female or minority entrepreneur whose you admire, and research the person's business and professional background. Interview the person if possible. What particular challenges were faced? What competencies were used to overcome them?

# Additional Resources

## **connect** [connect.mheducation.com](http://connect.mheducation.com)

Continually evolving, McGraw-Hill Connect® has been redesigned to provide the only true adaptive learning experience delivered within a simple and easy-to-navigate environment, placing students at the very center.

- Performance Analytics—Now available for both instructors and students, easy-to-decipher data illuminates course performance. Students always know how they're doing in class, while instructors can view student and section performance at-a-glance.
- Personalized Learning—Squeezing the most out of study time, the adaptive engine within Connect creates a highly personalized learning path for each student by identifying areas of weakness and providing learning resources to assist in the moment of need.

This seamless integration of reading, practice, and assessment ensures that the focus is on the most important content for that individual.

## Instructor Library

The Connect Instructor Library is your repository for additional resources to improve student engagement in and out of class. You can select and use any asset that enhances your lecture. The Connect Instructor Library includes the resources listed below.

### INSTRUCTOR'S MANUAL

The Instructor's Manual includes lecture outlines, chapter summaries, descriptions of the text features, answers to end-of-chapter materials, additional activities, and references to relevant articles.

### TEST BANK


The Test Bank includes multiple-choice, true–false, and short-answer questions, along with the correct answer and a rationale for the answer. The Test Bank is also available in a computerized version that allows you to add and edit questions.


### POWERPOINTS

PowerPoint presentations for each chapter are available to instructors and students on the Online Learning Center. Included are figures from the text, lecture outline material, figures that expand concepts in the books, and questions that can be used in class.

## Manager's Hot Seat

Now instructors can put students in the hot seat with access to an interactive program. Students watch real managers apply their years of experience when confronting unscripted issues. As the scenario unfolds, questions about how the manager is handling the situation pop up, forcing the student to make decisions along with the manager. At the end of the scenario, students watch a post-interview with the manager, view how their responses matched up to the manager's decisions. The Manager's Hot Seat videos are now available as assignments in Connect.

 **LEARNSMART**® The fifth edition of *Entrepreneurial Small Business* is available with LearnSmart, the most widely used adaptive learning resource, which is proven to improve grades. To improve your understanding of this subject and improve your grades, go to McGraw-Hill Connect® [connect.mheducation.com](http://connect.mheducation.com), and find out more about LearnSmart. By helping students focus on the most important information they need to learn, LearnSmart personalizes the learning experience so they can study as efficiently as possible.

 **SMARTBOOK**® An extension of LearnSmart, SmartBook is an adaptive eBook that helps students focus their study time more effectively. As students read, SmartBook assesses comprehension and dynamically highlights where they need to study more.

## Additional Resources

The authors have made arrangements with [straightupbusiness.institute](http://straightupbusiness.institute), [xtensio.com](http://xtensio.com), [bmfiddle.com](http://bmfiddle.com), and [launchpad.io](http://launchpad.io) to give students access to free resources keyed to *ESB5e*.

## Small Business and Entrepreneurship Videos

Videos available in the Connect Library bring important concepts to life by taking viewers on fieldtrips to real-life companies, to hear directly from entrepreneurs as well as presenting news features on small business and entrepreneurial topics.



# ACKNOWLEDGMENTS

This section is the one sure to get longer as a textbook revisions add up. We don't mind fighting for the space, because a text like *Entrepreneurial Small Business* could not be made without the contributions of a lot of people. Recognizing them here is a small recompense, but one we've valued in their works. It is also a lesson to you fledgling entrepreneurs out there—all ventures (and believe us, a textbook is a venture) require the support and advice of many other people to be successful. Here are the ones to whom we remain beholden.

Let's start with our mentors, professors who, through their academic lives, have served as inspiration to us all about the enduring importance of small business: Frank Hoy (Worcester Polytechnic Institute), Charles Matthews (University of Cincinnati), George Solomon (George Washington University), as well as three pioneering Coleman chairs, Gerry Hills (retired from Bradley University), Bob Brockhaus (retired from Saint Louis University), and Gerry Gunderson (retired from Beloit College).

There is also a group of faculty who were essential to *ESB* as it was developed and revised. Some of these started as doctoral students or protégés and are now long-established professionals and professors in their own right while others started as colleagues and remain friends long years later—Kathy Lund Dean (The Board of Trustees Distinguished Chair in Leadership and Ethics at Gustavus Adolphus College), Lisa Gundry (DePaul University), Janice Jackson (University of the District of Columbia), Gregory Konz SJ (Georgetown University), Laurel Boone JD (Saint Louis University), Scott Safranski (Saint Louis University), and Susan Peters (the Forrest S. William Professor of Entrepreneurship at Francis Marion University in Florence, South Carolina, and who is the lead author for *ESB's* Instructor's Manual). These people contributed much of the specialized expertise on which the text is built. Of course, the errors we have introduced over the years are our fault, not theirs.

At Saint Louis University, we use *ESB* in many of our classes, and the feedback SLU's Entrepreneurship Teaching Team provides us is invaluable. Over the past three years that team has included Professors Jintong Tang and Vince Volpe, and adjuncts Tim Hayden (Vivid Sky, FanzLive, Saint Louis University, and Stadia Ventures), Don Dent (Dent Consulting Group), Marian Nunn (Nunn Advisory Services), Steve Wideman (Wideman Management Group), Prosper, attorney Jim Rittenbaum, Jim O'Donnell (O'Donnell Capital), Steve Epner (The Startup Within), Laura Burkemper (The Catalyst Center), Ron Roy (Wines That Rock), Rob Boyle (Saint Louis University), Sutton Lasater (Sutton Lasater Jewelry), Beth Schulte, (CPA), Kyle Welborn (Cultivation Capital), Judy Sindecuse (Capital Innovators), Tim Murphy (Ziosk), Ty Sondag (Swagulator), Dougan Sherwood (Cambridge Innovation Center), and Jason Bockman (Strange Donuts). We also benefit from a group of entrepreneurship-minded Saint Louis University faculty from across our campus called Coleman Fellows sponsored by the Coleman Foundation: Alesia Slocum, Andrew Hall, Ann Scarlett, Bonnie Wilson, Dana Malkus, Dan Brewer, David Barnett, Greg Beabout, Huliya Mallikarjuna, Jan McIntire-Strasburg, Jenna Gorlewicz, Jim Burwinkel, Joanne Thanavaro, Ravi Ravindra, Katie Devany, Martin Brief, Michael Markee, Michael Swartwout, Mildred Mattfeldt-Beman, Patricia Lee, Ray LeBeau, Rebecca Lorenz, Sanjay Jayaram, Sarah Coffin, Scott Sell, Sridhar Condoor, Steve Wernet, Steve Jenkins, Whitney Linsenmeyer, and Yvette Liebesman.

We also want to thank a remarkable group of students, who agreed to share their work with you. Every business plan, industry analysis, marketing plan, and feasibility study you see in this book or on our website was authored by a student. This gives you a very realistic idea of what students *can* do using the ideas and approaches in *ESB*. Our thanks go out to our students and alums of the Entrepreneurship Program at Saint Louis University (in alphabetical order): Summer Albarcha, Beatrice Emmanuel, Tim Hayden, Corey James, Lachlan Johnson, James P. Keating, and Dan Watkins. As you would expect with our network of colleagues, there is also a host of students at other schools who contributed to the materials *you* see in *ESB*. These include Shannon Sheehee (California Polytechnic University–Pomona), Yong Xu (California Polytechnic University–Pomona), Mingkit “Jerry” Lai (California Polytechnic University–Pomona), and Laurel Ofstein (Western Michigan University). In particular we want to thank Ryon Brown, Matt Dorsey, and Britt Talbert for their contribution of the ColterDurham business plan that you

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Evaluation is central to the professional approach, whether in small business or in publishing. One of McGraw-Hill's strengths is its unwavering professionalism in the pursuit of publishing. At first, it is frankly daunting. It seems that *every* detail of *every* aspect of a textbook is subject to review—and that perception turns out to be accurate. Yet it serves a purpose. When McGraw-Hill releases a textbook, it has been reviewed, rewritten, and refined until it is a truly first-class product. It is a time-consuming, painstaking, and often underappreciated effort, but it produces textbooks that you have to admire.

At the core of this effort are faculty. These faculty contributed feedback about chapters within the text, the text organization as a whole, and some reviewed the entire manuscript to help us develop the best product available for your small business course. For a text as complex and far ranging as *ESB*, a large, diverse, and committed set of faculty offering opinions and reviews is needed, and we were fortunate to have more than three dozen dedicated colleagues willing to take time to help make this edition of *ESB* better. They have our thanks, and should have yours too, because without them, opening a book like *ESB* would be a game of chance. These faculty include:

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Penultimately, there is the team at McGraw-Hill. We had both written books before and thought we had some appreciation of the process of book publishing. However, publishing a *textbook* is a far cry from publishing text supplements or research tomes. In those cases, it is usually just words, with an occasional figure. For a textbook, it is figures, pictures, tables, key terms, URLs, cases of all different lengths, examples, discussion questions, experiential exercises, skill-building exercises, endnotes, business plans, manuals, website components, *and* words. And like a car assembled at one point where dozens of items miraculously come together, the assembly of a modern textbook is a similar experience.

We were fortunate to have Erin Guendelsberger serve as our developmental editor—the person who has to check all the elements and bring them together at the end. She took on an awesome amount of responsibility for *ESB* late in the project, and made sure we were able to get this book to you on time and up to the usual high standards of McGraw-Hill. The job of a sponsoring editor in a revision is that of the corporate entrepreneur or product champion, assembling the resources to make it happen, and motivating everyone to keep his or her eyes on the timeline, budget, book outline, and, oh, yes, the market. For *ESB5e* that role was ably held by Laura Spell, who quietly went about keeping it all on track. Michael Gedatus, who has progressed through several roles with *ESB*, is now our marketing manager and the person responsible for the selling effort that got *ESB* into your hands. As such, he comes onboard late in the process, but at the critical time for the book's commercial success. In addition, there are people such as Mary Conzachi, our program manager, Srdjan Savanovic, our designer, Keri Johnson and Kelly Hart, our content project managers, Shawntel Schmitt, our photo licensing specialist, and Shannon Manderscheid, our text licensing specialist, who made all this possible. To each and every one of these fine publishing professionals, we offer our deepest appreciation. One other McGraw-Hill professional, Ryan Blankenship, continues to have a special place in our hearts. He was the person who recognized the value of *ESB* and sold McGraw-Hill on our idea, and sold us on McGraw-Hill. We remain in his debt.

Keeping with this networking idea, you will see that this book makes extensive use of several strategic partnerships. These include the Global Student Entrepreneur Awards program ([www.gsea.org](http://www.gsea.org)), which celebrates collegiate entrepreneurs, and the Panel Study of Entrepreneurial Dynamics. As the Internet becomes a more integral part of education, we have benefited from partnerships with websites that have developed great material that we use and build on in *ESB5e*. These include [Xtensio.com](http://Xtensio.com), which has a great free set of online templates of start-ups; [BMfiddle.com](http://BMfiddle.com), which makes available for free a broad range of business canvases; and [Launchboard.io](http://Launchboard.io), which offers a web solution for doing lean business processes experimentation.

In particular, there has been an outpouring of new insights on handling some of the toughest challenges in start-ups, and we've built on the works of several brilliant thinkers including Alex Bruton ([straightupbusiness.institute](http://straightupbusiness.institute)), whose model for linking feasibility analysis, business model canvases, and business plans we follow in this volume; Justin Wilcox ([customerdevlabs.com](http://customerdevlabs.com)), whose approaches to customer research offered new insights; Eric Ries, Steve Blank, and Bob Dorf, whose work on lean business practices and, in particular, the customer development approach helped us improve our marketing sections; Alex Osterwalder and Yves Pigneur and Ash Muraya, who through their business canvas approaches helped inform our own work; and John Mullins and Dileep Rao and the other faculty at Mike Morris's Experiential Classroom as well as Jerry's colleagues at the Billiken Angel Network, whose insights helped us take our financing chapter to the next level. We are grateful for the continuing support of *ESB* from all of these people. From examples such as these we hope you will see the practical value of strategic partnerships, which we talk about in Chapters 3 and 7. The fact is that we can show you more about the world of small business *because* of our partnerships, and that makes the book, and your experience, better.

Finally, *Entrepreneurial Small Business* will pass its tenth year of existence with this edition, and the thinking and talking about it stretches back almost 25 years, in classrooms, at meals, at social get-togethers, and over many, many phone calls, emails, presentations, and papers. What started as a labor of learning among professors and protégés became a labor of love among colleagues. Often this labor was possible because of time contributed by (or stolen from) families and significant others. The number of meals missed, calls taken over the family phone, late nights spent over the computer, or weekends spent at work over the past 25 years are innumerable. What those family members and significant others saw was the passion for discovery and the excitement of finding and telling others about a better way of doing things in small businesses or explaining small business. For all of the network, and especially the authors, that support was the critical enduring ingredient in making *Entrepreneurial Small Business* a reality. For that reason, we want to recognize the enormous emotional and motivational contributions made by Dave Peters, James F. Amrhein, Nora L. Peterson, Josh Katz, Lauren Katz, and Cheryl Nietfeldt.

# BRIEF CONTENTS

## Part One

Entrepreneurs and Ideas: The Basis of Small Business 1

1. Small Business: Its Opportunities and Rewards 2
2. Small Business Entrepreneurs: Characteristics and Competencies 28
3. Small Business Environment: Managing External Relations 52
4. Small Business Ideas: Creativity, Opportunity, and Feasibility 82

## Part Two

Small Business Paths and Plans 121

5. Small Business Entry: Paths to Part-Time Entrepreneurship 122
6. Small Business Entry: Paths to Full-Time Entrepreneurship 158
7. Small Business Strategies: Imitation with a Twist 192
8. Business Plans: Seeing Audiences and Your Business Clearly 222

## Part Three

Marketing in the Small Business 273

9. Small Business Marketing: Product and Pricing Strategies 274
10. Small Business Promotion: Capturing the Eyes of Your Market 314
11. Small Business Pricing, Distribution, and Location 362

## Part Four

Cash, Accounting, and Finance in the Small Business 417

12. Small Business Accounting: Projecting and Evaluating Performance 418
13. Cash: Lifeblood of the Business 460
14. Small Business Finance: Using Equity, Debt, and Gifts 492
15. Assets: Inventory and Operations Management 526
16. Small Business Protection: Risk Management and Insurance 566

## Part Five

Management and Organization in the Small Business 597

17. Legal Issues: Recognizing Your Small Business Needs 598
18. Human Resource Management: Small Business Considerations 636

Personal Net Worth Calculation Template P-1

Glossary G-1

Endnotes E-1

Indexes I-1

## Part One

### Entrepreneurs and Ideas: The Basis of Small Business 1

#### CHAPTER 1

##### Small Business: Its Opportunities and Rewards 2

Focus on Small Business: Paul Scheiter, Hedgehog Leatherworks 3

Starting an Entrepreneurial Small Business: Four Key Ideas 4

**Skill Module 1.1 The Small Business Online Scavenger Hunt 5**

Entrepreneurs Are Everywhere 6

The Many Types of Entrepreneurial Small Businesses 8

*Entrepreneurs and Firm Growth Strategies 9*

Rewards for Starting a Small Business 10

Myths about Small Businesses 12

Getting Started Now: Entry Competencies 13

**Skill Module 1.2 BRIE Self-Assessment 14**

Small Business and the Economy 16

*New Jobs 16*

*Innovations 16*

*New Opportunities 17*

*Two Aspects of Global Entrepreneurship 19*

*Beyond Small Business: CSI Entrepreneurship 21*

*Challenge and the Entrepreneurial Way 22*

Chapter Summary ■ Key Terms ■ Discussion Questions ■ Experiential Exercises ■ Mini-Case

#### CHAPTER 2

##### Small Business Entrepreneurs: Characteristics and Competencies 28

Focus on Small Business: Internet Entrepreneur Laura Tidwell 29

The Psychology of Entrepreneurs 30

*The Five Ps of Entrepreneurial Behavior 30*

**Skill Module 2.1 Entrepreneurial Personality Overview 33**

*Entrepreneurial Operational Competencies 34*

**Skill Module 2.2 Competency Self-Assessment 34**

*The Entrepreneurial Life Cycle 36*

The Sociology of Entrepreneurs 39

*Entrepreneurial Teams 39*

*Family Businesses 41*

*Women and Minorities in Small Business 44*

*Second Career Entrepreneurs 47*

Chapter Summary ■ Key Terms ■ Discussion Questions ■ Experiential Exercises ■ Mini-Case

#### CHAPTER 3

##### Small Business Environment: Managing External Relations 52

Focus on Small Business: Summer Albarcha and the Controversial Skirt 53

The Environment of Small Business 54

The Elements of the Small Business Environment 54

**Skill Module 3.1 Finding Your Trade or Professional Association and Related Magazines 56**

Environmental Scanning for Small Businesses 57

**Skill Module 3.2 Finding Out How the Small Business Economy Is Doing 58**

Five Skills for Managing Relations with the Environment 59

*Building Legitimacy 59*

*Developing a Social Network 61*

**Skill Module 3.3 Asking for Help 64**

**Skill Module 3.4 Networking Skills 65**

*Handling a Crisis 67*

*Achieving Sustainability 68*

*Making Ethical Decisions 69*

Chapter Summary ■ Key Terms ■ Discussion Questions ■ Experiential Exercises ■ Mini-Case

#### CHAPTER 4

##### Small Business Ideas: Creativity, Opportunity, and Feasibility 82

Focus on Small Business: Dave Kapell—Poetry in Motion 83

Ideas, Opportunities, and Businesses 84

From Ideas to Opportunities through Creativity 88

Avoid Pitfalls 91

Screen Ideas 92

### Skill Module 4.1 Checking Ideas on the Web 92

- Make Sure an Idea Is Feasible 94  
*The Business Model Canvas Approach* 95  
*The Classic Feasibility Study* 98

Ways to Keep On Being Creative 102

### Skill Module 4.2 Great Ideas for Making Idea-Prone Companies 102

- Chapter Summary ■ Key Terms ■ Discussion  
 Questions ■ Experiential Exercises ■ Mini-Case

Appendix A Sample Feasibility Study 107

## Part Two

### Small Business Paths and Plans 121

#### CHAPTER 5

### Small Business Entry: Paths to Part-Time Entrepreneurship 122

- Focus on Small Business:  
 D.J. Haverkamp 123
- Why Part-Time Businesses Are Important 124
- When to Consider Part-Time  
 Entrepreneurship 125
- Key Considerations for Success in Part-Time  
 Entrepreneurship 126
- What Kinds of Part-Time  
 Entrepreneurship Exist? 127  
*Home-Based Business* 128  
*Internet Informational Websites* 132  
*E-Commerce and eBay Websites* 136

### Skill Module 5.1 Checklist for Maximizing Success on eBay 139

*The Next Best Things to a Home-Based  
 Business* 142

- Success Factors for Part-Time Businesses 147  
*Boundary: Separating and Balancing Business  
 and Home* 148  
*Exchange: Dealing with Others* 148  
*Pricing and Costing* 149

- What Are the Challenges of Being an Entrepreneur  
 Part Time? 149  
*Delegation and Outsourcing* 149  
*Ethics and Part-Time Small Business* 151

*Moving from Part-Time to Full-Time  
 Entrepreneurship* 153

- Chapter Summary ■ Key Terms ■ Discussion  
 Questions ■ Experiential Exercises ■ Mini-Case

#### CHAPTER 6

### Small Business Entry: Paths to Full-Time Entrepreneurship 158

- Focus on Small Business: Tom Caldbeck,  
 Contractor 159
- Planning Your Path into Full-Time Business 160  
*Making Do as a Way to Success* 162
- The Five Paths to Business Ownership 165
- Starting a New Business 165  
*Advantages of Start-Ups* 166  
*Disadvantages of Start-Ups* 166  
*Creating a New Business* 166  
*Increasing the Odds of Start-Up Success* 168  
*If at First You Fail . . .* 171
- Buying an Existing Business 172  
*Advantages of Purchasing an Existing Business* 172  
*Disadvantages of Purchasing an Existing  
 Business* 172  
*Finding a Business to Buy* 172
- Skill Module 6.1 Finding a Business  
 for Sale 172  
*Investigating Entrepreneurial Opportunities:  
 Performing Due Diligence* 174  
*Determining the Value of the Business* 176  
*Structuring the Deal* 178  
*Buyouts* 178  
*Buy-Ins* 179  
*Key Resource Acquisitions* 179  
*Takeovers* 179
- Franchising a Business 180  
*What Is Franchising?* 180  
*Advantages of Franchising* 181  
*Franchise Opportunities* 182  
*Legal Considerations* 182
- Inheriting a Business 184  
*Family Businesses Succession* 184  
*Developing a Formal Management Structure* 184  
*Succession Issues for the Founder* 184  
*Succession Issues for the Successor* 185  
*Ownership Transfer* 186
- Professional Management of  
 Small Business 187  
*How to Get Out of Your Business* 187

Chapter Summary ■ Key Terms ■ Discussion  
Questions ■ Experiential Exercises ■ Mini-Case

## CHAPTER 7

### Small Business Strategies: Imitation with a Twist 192

Focus on Small Business: Mindnautilus 193

Strategy in the Small Business 194

Goals: The First Step of Strategic  
Planning 195

*Owner Rewards* 195

**Skill Module 7.1 Finding Your Magic  
Number** 196

*Product/Service Idea and Industry* 196

**Skill Module 7.2 Finding Your Firm's  
Industry** 198

*Imitation and Innovation* 198

*To Whom Will You Sell?* 200

Customers and Benefits: The Second Step  
of Strategic Planning 201

*Value and Cost Benefits* 202

**Skill Module 7.3 Checking Customer Opinions  
Online** 203

**Skill Module 7.4 Building Perceptual  
Maps** 205

Industry Dynamics and Analysis: The Third Step  
of Strategic Planning 206

*Tool: Industry Analysis* 207

**Skill Module 7.5 Short and Sweet Industry  
Analysis** 207

Strategy Selection: The Fourth Step  
in Strategic Planning 210

Post Start-Up Tactics 213

Chapter Summary ■ Key Terms ■ Discussion  
Questions ■ Experiential Exercises ■ Mini-Case

Appendix Five Steps to an Industry  
Analysis 219

## CHAPTER 8

### Business Plans: Seeing Audiences and Your Business Clearly 222

Focus on Small Business: Tim Hayden and the  
Missed Home Run 223

Business Plan Background 224

The Business Plan Story: Starting Small and  
Building Up 227

*The Vision Statement* 227

*Elevator Pitch* 228

**Skill Module 8.1 How to Write Your  
Elevator Pitch** 229

*The Executive Summary* 229

**The Business Plan** 231

*Cover Letter* 233

*Title Page* 234

*Table of Contents* 234

*Executive Summary* 234

*Company, Product/Service and Industry* 234

*The Market* 235

*The Organization* 237

*The Financial Summary* 238

*The Appendixes* 238

*The Mechanics of a Business Plan* 239

Focusing Your Business Plan 242

The Most Common Critical Risks in a Plan 247

Pitching Your Plan 248

*Crafting Your Pitch Deck* 250

*Closing Thoughts on Business Plans* 253

Chapter Summary ■ Key Terms ■ Discussion  
Questions ■ Experiential Exercises ■ Mini-Case

Appendix A Example Cover Letter and  
Résumé 257

**Skill Module 8.2 How to Write a  
Cover Letter** 257

**Skill Module 8.3 How to Write a  
Résumé** 258

Appendix B ColterDurham Business Plan 260

## Part Three

### Marketing in the Small Business 273

## CHAPTER 9

### Small Business Marketing: Product and Pricing Strategies 274

Focus on Small Business: Scott the  
Seamstress 275

The Marketing Process 276

Understanding the Customer 278

*Customer Roles* 278

*Initial Customer Profiles* 279