

Sixth Edition



Entrepreneurial Small Business

Jerome Katz  
Richard Green

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Graw  
Hill



# Entrepreneurial Small Business

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## ENTREPRENEURIAL SMALL BUSINESS, SIXTH EDITION

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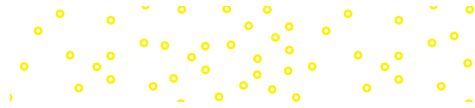
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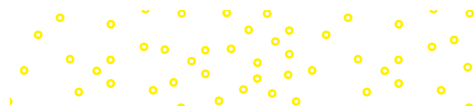
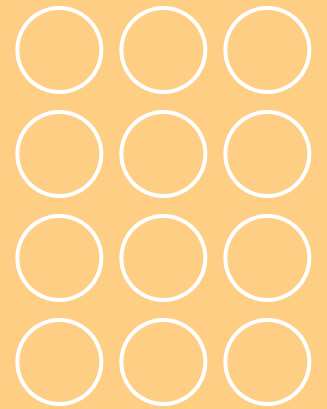
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To our parents, who gave us  
inspiration.

To our children, who gave us  
motivation.

To our spouses, who gave us  
dedication.



## ABOUT THE AUTHORS



Courtesy of Jerome Katz

### Jerome A. Katz

Jerome (Jerry) Katz is the Robert H. Brockhaus Endowed Chair in Entrepreneurship at the Richard A. Chaifetz 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 was 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 Germany, Spain, 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 8 of his papers can be found in 11 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, and Google Scholar reports Jerry's papers have been cited over 11,000 times. Jerry founded and edited two book series, *Advances in Entrepreneurship, Firm Emergence and Growth* (published by Emerald) and *Entrepreneurship and the Management of Growing Enterprises* (published by Sage) and has edited over a dozen special issues. He sits on the editorial boards of 11 journals: *Journal of Small Business Management*, *Entrepreneurship and Regional Development*, *International Journal of Entrepreneurship and Small Business*, *Journal of International Entrepreneurship*, *International Entrepreneurship and Management Journal*, *International Journal of Technoentrepreneurship*, *Experiential Entrepreneurship Exercises Journal*, *USASBE Annals of Entrepreneurship Education*, *Ekonomski Vjesnik Econviews*, *Journal of Entrepreneurship Education*, and *Entrepreneurship Education & Pedagogy*.

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 Chaifetz 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 Internacionales, 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.



Courtesy of Richard P. Green II

## 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:

Conventional Small Businesses	High-Growth Ventures
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 success. 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 (<https://sites.google.com/a/slu.edu/eweb/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 Entrepreneurial Dynamics (PSED) at [www.icpsr.umich.edu/icpsrweb/ICPSR/studies/37203](http://www.icpsr.umich.edu/icpsrweb/ICPSR/studies/37203), where we have the benefit of the experience and wisdom of Kelly Shaver (College of Charleston) to help generate many of the statistics we use in this volume. We also use 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)), their Indicators of Entrepreneurship (<https://indicators.kauffman.org/>), the surveys of the National Federation of Independent Business ([www.nfib.com/foundations/research-center/monthly-reports/](http://www.nfib.com/foundations/research-center/monthly-reports/); <http://www.411sbfacts.com/>); global studies like the Global Entrepreneurship Monitor (GEM) at [www.gemconsortium.org](http://www.gemconsortium.org); the surveys conducted by the U.S. government (conveniently gathered together at [www.nfib.com/foundations/research-center/additional-resources/data-sources/](http://www.nfib.com/foundations/research-center/additional-resources/data-sources/)); 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 Entrepreneurial 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.

<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).

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 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 Sixth Edition of *ESB*

In each edition of *Entrepreneurial Small Business* we try to follow a theme. The sixth edition's theme was "take it to the 'net.'" The Internet has made it possible for more people to share more ideas about entrepreneurship than ever before. For every major entrepreneurship magazine online, like [Entrepreneur.com](http://Entrepreneur.com) or [Inc.com](http://Inc.com), there are hundreds of websites, blogs, and YouTube channels created by entrepreneurs and business experts with a laser-sharp focus on a few issues that are key to them. The goal for this book was to link students to the best of what's out there. Curation plays a big role in making the sixth edition of *ESB*.

We've added almost three dozen Learn More Online (LMO) boxes which contain some of the best sites on the web to learn more about topics in the text, or find applications or online services embodying the kinds of actions you need to take as a start-up entrepreneur. We've added over 100 new sites in the narrative of the text, and updated URLs for all of the more than 750 websites mentioned throughout the text. Building on thought leaders in entrepreneurship from *ESB*'s fifth edition like Eric Ries, Alex Osterwalder, Steve Blank, and Alex Bruton, we have added new leading-edge ideas like the PESO Model of Media from Gini Dietrich, IDEO's feasibility model, and Isaac Jeffries's fitting of it to the business model canvas, Brad Feld's vision of the structure of start-up communities, and Mike Moyer's Slicing Pie approach to figuring out equity for start-up teams.

As is true for every edition, there are updates throughout—updated numbers, counts, and statistics; updated URLs; updated and new examples; and updates on people from prior editions throughout this edition.

Instructors using *ESB* asked for even more skill modules and experiential exercises, and the sixth edition has 54 skill modules and 102 experiential exercises. Together these represent the largest number of behavioral activities ever gathered in a small business or entrepreneurship text.

We continue building on the great resources available to entrepreneurs from government and private sources. There include 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 canvases of [BMfiddle.com](http://BMfiddle.com), or the readily understandable approach to valuing businesses that comes from [Valuations.com](http://Valuations.com). We've added skill modules leveraging [Facebook.com's Audience Insights](https://www.facebook.com/audienceinsights) and the newly revamped [Census.gov](http://Census.gov) data access web pages.

If you look closely at the materials from others we mention and include in the text, you may notice that while we use many of those ideas and techniques, we don't always 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. A lot of today's models think first of firms in the 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 [StartupWeekend.org](http://StartupWeekend.org) 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 a new backpack will take longer to get going and be made 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 often 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 host of new examples in this chapter: Robin Rath of Pixel Press as our opening vignette, Jim McKelvey of Square replacing Paul McCartney as the CSI entrepreneur, Snapchat’s founders replacing Jobs and Wozniak, and a new mini-case at the end of the chapter profiling Jolene Adams.

*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 a new opening vignette on Khalia Collier of the St. Louis Surge Women’s Basketball Team; Learn More Online boxes on personality, competencies, women and minority businesses, second career and veteran entrepreneurs, and teams and family businesses; and new terms like *entrepreneurial mindset* and *micro-commitments*.

*Chapter 3:* This chapter is also updated in terms of the statistics on small business and the websites, people, and businesses profiled. We’ve updated the entrepreneurial environment model with the highly regarded work on entrepreneurial ecosystems by Brad Feld from his book *Startup Communities*. The chapter adds a skill module on using Flipboard for environmental scanning, and added Learn More Online boxes on daily news sources for entrepreneurs, finding help on using Facebook and Google advertising, and green/sustainable entrepreneurship. There is also a new Small Business Insight titled “The Dark Side of the Sharing Economy.”

*Chapter 4:* Given this chapter received a major revamp for the fifth edition, the fundamentals remained the same. That said, we replaced the opening vignette with one about the multi-talented entrepreneur Mary Elizabeth Coleman. The RBI model used in the fifth edition was replaced by the better-known IDEO model for assessing initial feasibility. This also led to the addition of a new skill module applying the IDEO screen, and to some updates of the classic feasibility study outline. The chapter also added four Learn More Online boxes on creativity sites, customer-focused interviewing resources, online business model canvas resources, and landing page resources. New ideas included design thinking, retail arbitrage, customer job, and target market.

*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 Carla Brauer and Dermestidium Trophy Processing. This story is an exemplar of how a long-time avocation can change into a profitable business. Sections 5-1 and 5-2 were rewritten for clarity and better readability. We also added two Learn More Online boxes, one specifically relating to side businesses as part-time businesses. In addition, we updated the graphs and tables on numbers and types of business establishments, as well as several photos throughout the chapter.

*Chapter 6:* This chapter has been extensively reworked and topic order has been reorganized for more logical progression. A new opening vignette features Paul Hedrick and his boot company, Tecovas. The Small Business Insight was rewritten and uses Scratch Labs as an example of effectual reasoning. We have updated the text to include key terms *bootstrapping*, *bricolage*, and *lean practice*. Jasmine Adams and her start-up “Smudgies” is a new example for leveraging contingencies. Section 6-3, “Rewards and Pitfalls of Starting a New Business” has been revised and in addition, two Learn More Online boxes were added.

*Chapter 7:* In addition to general updating of statistics, stories, and websites mentioned, this chapter saw a new opening vignette, looking at the gift box company Greetabl (which will pop up in mentions in the rest of the book, up to the cover page of their design patent in Chapter 17). Perceptual mapping was replaced by “Mapping Your Distinctive Competence” which was originally step 1 from Skill Module 9.4 in *ESB* fifth edition. The skill modules, experiential exercises, and appendix in the chapter got revamped because of the change to Greetabl as well as changes in the U.S. Census’s major data source for business, now called Census Business Builder. Skill Module 7.5 saw the addition of a Google Maps procedure for displaying your competitors.

*Chapter 8:* As you might guess, this chapter also received the general updating of statistics, stories, and websites mentioned. The RBI screen was replaced by the IDEO screen, but the biggest change was the replacement of the Colter Durham business plan with the plan from Red Jett Sweets, which first appeared in the fourth edition of *ESB* and was sorely missed by a lot of instructors. This version was completely rewritten to fit the 10+8 page model *ESB* now teaches. The chapter also added Learn More Online boxes on free online business planning programs, alternatives to PowerPoint for pitch decks and online résumé and cover letter builders, as well as terms like *traction*, *micro-commitments*, and *offering circulars*. A whole new section “Storytelling and the Art of the Pitch” tries to capture the art and science of getting your story out.

*Chapter 9:* In addition to the general updating of statistics, stories, and websites we’ve been doing for all the chapters, we worked to tighten up the customer section of this chapter, which received a major revision for the fifth edition. This included adding the section “Finding First Customers” along with changing the name of “The Perfect Customer” section to “Thinking about Customer Service” with a refocusing of some of the material in that section. This also led to adding a skill module on using Facebook Audience Insights. The “Segmenting Your Market” section from Chapter 10 (including the associated skill module “Identifying Target Market Segments” which is now Experiential Exercise 12) was moved here and integrated with the other customer-centric material, as was another Chapter 10 skill module “Finding Demographic Information by Zip Code.” Some of the examples that were updated include 3-D printers and replacing MP3 players with Bluetooth speakers. The chapter includes new Learn More Online boxes

on free online platforms for marketing surveys and free programs for 3-D model building. Skill Module 9.10 was retired in favor of Experiential Exercise 8.

*Chapter 10:* Structurally one of the biggest changes in *ESB*'s sixth edition was the rethinking of the promotion process of the 4 Ps of marketing. The field of marketing has coalesced around the PESO Model of Media developed by Gini Dietrich— reflecting paid, earned, shared, and owned forms of media, and their overlaps. The model really helps integrate traditional and social media and makes the options available to entrepreneurs and students much clearer than older models, so we replaced the earlier sections “Crafting Your Message” and “Conveying Your Message” with one section titled “Promotion Using the PESO Model.” We moved substantial material from Chapter 11 such as “Brand and Organizational Identity” and sections from “Distribution” including “Direct Marketing,” “Distribution Issues for Direct Marketing,” and “Nondirect Distribution” to Chapter 10, integrating that material in the appropriate sections of the PESO Model, most often in paid media. Given these changes, we removed the section “Strategizing for Promotion.” Learn More Online boxes included product review sites, affiliate marketing sites, and free customer relationship management (CRM) online services. There were also minor changes to Discussion Question 5 and Experiential Exercise 5. Experiential Exercise 3 from the fifth edition was moved to Chapter 9, Exercise 2.

*Chapter 11:* Aside from the general updating of statistics, stories, and websites, the biggest changes to this chapter were increased coverage of fulfillment by Amazon and its competitors (in the section formerly called “Nondirect Distribution” now renamed “Fulfillment and Nondirect Distribution”), and the addition of four Learn More Online boxes on coupon sites, loyalty program management platforms, economic development sites, incubator/accelerator/co-working directory sites, and online floor plan builder sites.

*Chapter 12:* This chapter received an overhaul, beginning with a new opening vignette highlighting Justin Beegel of Infographic World, Inc. The section “Why Accounting Is Important for Small Business Success” was rewritten for clarity and content. In “The Concepts That Make Accounting Work” we added qualitative characteristics of useful financial information as well as added an explanation of the greater claim creditors have on assets and rewrote the accounting equation. All accounting illustrations and financial reports were updated and now feature Red Jett Sweets, the company first introduced in Chapter 8. The industry links are current live sites and the “Accounting Systems for Small Business” section was rewritten to reflect current standards. We added a Learn More Online box with links specifically for tutorial sites for accounting purposes.

*Chapter 13:* This chapter, which deals with the issues of managing cash flows and completes the budget process, has been updated with a new vignette featuring the cautionary tale of Creator, Inc. All the learning objectives in this chapter have been rewritten and reorganized. Based on adopter feedback, the bank reconciliation section was moved to a new Appendix. Data on cash inventory were updated to 2019. The “Importance of Cash Management” section was renamed to specify cash, not just money, and we included a new introductory paragraph giving justification for the topic. In “Money In/Money Out,” we updated data to reflect the most recent NFIB poll and also removed the dated Baby Einstein example. The “Managing Cash Flows” section offers a new explanation as to why this topic is important and a new exhibit from the Federal Reserve is included. The Learn More Online box provides links to discussion of providing discounts for prompt payment.

*Chapter 14:* The new opening vignette of this chapter tells the story of Bungii.com, a moving company that began when a college student in Kansas, Ben Jackson, got the idea for a business app that he believed could be developed into a profitable business. A new The Thoughtful Entrepreneur box titled “Royalty Financing” was added. The section “Gifts via Crowdfunding” was rewritten to be more consistent with current law and regulations. And, of course, data were consistently updated throughout the chapter to include prevalent information.

*Chapter 15:* In the fifth edition, for this chapter we added a section on the importance and value of documenting business processes. In this edition, we see a new opening vignette discussing inventory theft and the importance of protecting current assets, especially in small

businesses. We added a relevant discussion on the risk of holding inventory. Skill Module 15.3 was removed along with the Small Business Insight “Outsourcing Blues.” In the “Managing Operations” section we added a Learn More Online box with valuable links to various outsourcing services and manufacturing.

*Chapter 16:* Changes to this chapter include a new opening vignette focusing on the threat to small business computer systems caused by cyber criminals. New content was added to offer insight in dealing with cyber threats. The Small Business Insight box featuring Clint Eastwood was removed and we simplified the discussion of compliance with regulations. We added a new chart on the sources of theft in retail businesses and also new discussions on protecting businesses from theft and managing risks inventory. Several photos were also updated to give this chapter a fresher look.

*Chapter 17:* Given the updates in this chapter for the fifth edition, relatively little was done this time around, aside from the usual updating of statistics, stories, and websites. Skill Module 17.1 was revised and refocused on USA.gov instead of the NOLO.com website, and the knife sheath patent cover page from Hedgehog Leatherwork’s Paul Scheiter was replaced by the cover page for the design patent for Greetabl’s gift box developed by Joe Fischer. And in our discussion of intellectual property, we added how to register hashtags (e.g. #followme), along with updated instructions for USPTO’s TESS database in Skill Module 17.2

*Chapter 18:* Like Chapter 17, this chapter saw general updating in the fifth edition, and little beyond the usual updating of statistics, stories, and websites was needed. The opening vignette, “Jesse Mecham and You Need A Budget,” is new, as are the Learn More Online boxes added on job description websites and pre-hiring testing websites. A new section “Dividing Ownership in Nonfamily Start-Ups” was added after the section “Dividing Up Ownership and Dividends” which focuses on family firms. The new section builds on the work of Mike Moyer and his Slicing Pie model for allocating equity in bootstrapped start-ups.

When we look at the detailed list just discussed, for this edition about one-third 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 two-thirds 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 [jerome.katz@slu.edu](mailto:jerome.katz@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 IDEO 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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## WALKTHROUGH

## 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

• Carly Brown moved from a hobby to a business of cleaning animal skulls and making wall mounts and jewelry items from the cleaned skulls. How do you think you could do this? Would you start if you want to work the business part-time?  
Carly Brown



### 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

• Amber Sauer's Strategic Brand, Research Brand Guide, is aimed at her market audience. What challenges are you going to face as a small business by its distribution approach? How might this approach work to Sauer's advantage?  
Sauer • © iStock Photo/istock.com



### 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

• Thomas Lemery built Cashflow Inc. from a side-off of GE's corporate credit operations. Between 1997 and 2015, the company grew from 8 employees to more than 50. How do you think you could do this? Would you start if you want to work the business part-time?  
Thomas Lemery



### 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 model canvases and business plans are a part of every small business course. Even when a business plan may not be necessary to start your business, it remains critical to plan and understand your business in any circumstance.

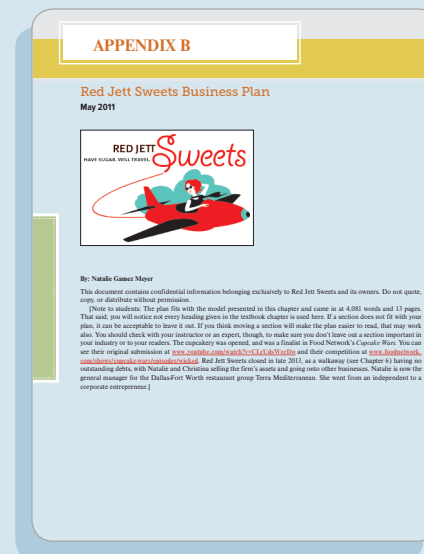
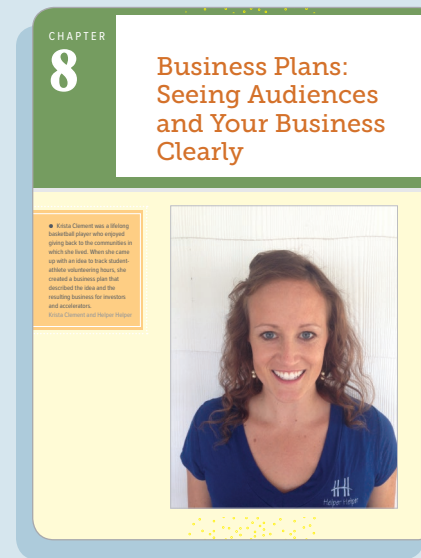
Chapter 8 includes practical information helpful to any small business owner, such as:

- The elevator pitch—how to quickly get people interested in your business.
- How to translate business model canvases (from Chapter 4) 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:

- IDEO Fast Screener (in Chapter 4)
- Feasibility Plan (after 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

## Practical Advice and Experiential Learning

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.

Along with over 100 end-of-chapter experiential exercises, 54 skill modules throughout the text give students the hands-on experience they need to start and manage a small business. *Together, these materials provide one of the largest collections of experiential learning techniques available from any text or online text alternative.*

## Skill Modules

Going beyond telling students what-to-do, *ESB's* skill modules give detailed how-to information on performing the key actions of successful entrepreneurs. 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:

- Entrepreneurial Personality Overview
- Checking Ideas on the Web
- Short and Sweet Industry Analysis
- The Art of Closing
- Finding an Outsourcing Partner

**178 PART 2 Small Business Plans and Plans**

**SKILL MODULE 6.1 Finding a Business for Sale**

Although all businesses are for sale if the price is right, finding that one perfect business is a difficult and time-consuming task. As you will find out by completing this skill task, businesses for sale that are easy to find usually are unavailable. Businesses that are right for you are somewhat elusive.

1. Decide what type of business you would be interested in buying. Write a profile of your ideal business to buy, specifying its industry, product or service, size, location, price, and financing.
2. Search the Wilson Pages and the Internet to find business brokers active in your area.
  - a. Contact each broker and inquire about businesses that meet your criteria. Be honest in your approach. Do not request a profile of a business before you are sure.
  - b. Obtain copies of the information that the broker has concerning the business.
3. Search your local newspaper, *The Wall Street Journal*, and Internet classified advertisements for the headings "business for sale" and "business opportunities." On Google, search for "buy a business" to find websites that specialize in businesses for sale.
4. Make a list of businesses that seem to meet the requirements that you wrote down in step 1.
5. Contact the businesses that you have identified. Be honest in your approach. If you are doing this solely as a classroom exercise, explicitly say so. Remember that while the owner of the business may want to sell it, he or she is undoubtedly very busy and may not want to discuss the business with a student who there is a chance of your actually buying it.
6. Visit a business that is engaged in the industry you have identified as being right for you. Find out the following things:
  - a. The title and publisher of the journals dedicated to the industry. You can also check out Skill Module 1.1.
  - b. The primary businesses of this type operating in your geographic area.
  - c. Conventional business practices:
    - i. Is business done on credit?
    - ii. Who are the primary suppliers to the business?
    - iii. What are the other channels of the business (direct sales, catalog, etc.)?
    - iv. How is technology changing in the business?
    - v. Are there any industry rates of return for valuing businesses?
  - d. Does the owner receive any benefits for selling the business?
7. Obtain sample copies of the industry journals. Examine them for advertisements of businesses for sale.
8. Make an appointment with a loan officer at the commercial loan department of a bank in your area. Describe what you are looking for in a business to buy.
  - a. Ask if the loan officer knows of any businesses for sale in your area.
  - b. Ask if the loan officer can introduce you to anyone who might be able to help you find a business for sale.

Finally, write and present a report to your class that details the efforts and results of your research.

brokers to register by filing a simple form. Accusations of misrepresentation and fraud by brokers are common in the business area.

Networking is an excellent way to find businesses for sale. While most businesses are for sale at any time, the competitive reasons most owners do not want to say so explicitly. Because customers, vendors, and employees are likely to feel threatened, openly advertising a business for sale can lead to the loss of revenue, credit from vendors, and key employees. For these reasons, it is common for business owners to make their intention to sell known only to trusted confidants in the industry and in the community. Attorneys, bankers, accountants, and insurance agents all will provide you with information only if they know that they can trust your discretion.

## 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 Dispel key myths about small businesses.
- LO 1-4 Identify actions key to becoming a small business owner.
- LO 1-5 Recognize how small businesses are important to our economy and your community.
- LO 1-6 Recognize the seven key strategies of the entrepreneurial way.

**LEARNING OBJECTIVES**

**Focus on Small Business: Robin Rath, Pixel Press!**

When Robin Rath was a kid, he was an avid player of video games like *Metrod* and *Super Mario Brothers*, and when he wasn't playing he was designing new levels of his favorite games in his head and on paper. But he realized that video gaming was just art and just programming, and that helped him set his course. Following an undergraduate degree from Saint Louis University (SLU) bridging communications technology with fine and studio arts, he was positioned to realize his dream.

But game producers were thin on the ground at St. Louis, so Robin's strategy was to find jobs to hone his programming skills during the day and create his own firm, Roundbitt, to develop games as his side gig on nights and weekends. His main work included clients at increasingly responsible and demanding positions at six different companies in the programming and marketing industries in St. Louis. Meanwhile, he and his Roundbitt partner, Jon Gerry, released *Badal 50* for iOS, a circular takeoff on the classic Breakout brick-breaking video game. Robin's day and side gigs helped him develop the in-depth knowledge of programming, product planning, marketing, and networking which convinced him that given the right idea, he would be ready to go full time as an entrepreneur.

The idea that led to full-time entrepreneurship was *Pixel Press*, a piece of software for iPhones and iPads that would let regular people with no programming skills create playable games reminiscent of *Super Mario* on their Apple devices. While the idea was ambitious, it was possible, and as he got word out, Pixel Press got favorable press from ABC News, CNN, Fox Company, and others. Building on this, Robin created a Kickstarter campaign to crowdfund his dream. You can see the campaign and watch the original pitch at [www.kickstarter.com/projects/robinrath/pixel-press](http://www.kickstarter.com/projects/robinrath/pixel-press).

**Give your own video game.** The campaign was successful, topping \$100,000. With that money and with word he had earned, Pixel Press made it to market. Within two years, Pixel Press announced a partnership with Cartoon Network (CN) resulting in the *Adventure Time* Game Wizard, which would let players create games with CN characters. From the success of that partnership, Pixel Press went on to release its next product that represented its first foray into toy and gaming, forming partnerships with Mattel and Disney to bring products to store shelves in the United States and internationally.

## 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.

## Learn More Online Boxes

Curating the best of the Internet, these boxes in every chapter provide links to more than 500 free online programs, sources of information, apps, and services that have been classroom-tested and found to be a help for student entrepreneurs and their businesses.

**SMALL BUSINESS INSIGHT**

**SUCCESS: OF DAVE AND KIMBERLY**

CT Dave's mom Lauren was battling breast cancer, and to help her more in this world time CT would make her kombucha tea (pre-gut a slightly bubbly fermented dark herbal tea) from the family's recipe. They learned about it through their sibling involvement in Eastern philosophy. Lauren had the cancer, and CT decided to offer the tea community.

As CT's sales grew, Lauren's quality of life was suffering in bottles and selling it locally in health food stores in the heartland of Los Angeles. The family grew the business to other health food stores in the area using nothing but the same recipe from the business, and a \$2000 start to be better. When he went to school in high school, it was a tough go, and he left but kept working to get a CEO and take community college classes.



Photo: iStock.com/SteveGardner

Four years after he started the business, he got the tea drink from (Kombucha) and a kombucha and had that make exporting predictable and safe.

Another approach that has grown dramatically in the past 15 years is using e-commerce, particularly sites like eBay and Amazon, to handle global trade. The formal site for this is virtual global market entrepreneurship (VME). VME depends on using various 3rd parties (Amazon or eBay for products or Upwork for services) to quickly establish a global presence. Many of these VME sites offer procedures, services, and web page templates that incorporate best practices for global trading. For example, eBay links new sellers through the creation of seller and

**e-commerce**  
The general term for conducting business on the Internet.

**virtual global market entrepreneurship (VME)**  
A process that uses the Internet to quickly reach businesses with a worldwide reach.

**parents' birth**, or where he has prior experience. The key to such experts is the personal ties that make exporting predictable and safe.

Another approach that has grown dramatically in the past 15 years is using e-commerce, particularly sites like eBay and Amazon, to handle global trade. The formal site for this is virtual global market entrepreneurship (VME). VME depends on using various 3rd parties (Amazon or eBay for products or Upwork for services) to quickly establish a global presence. Many of these VME sites offer procedures, services, and web page templates that incorporate best practices for global trading. For example, eBay links new sellers through the creation of seller and

Dorsey, who had recently left the company he created, Twitter. Jim and Jack decided to pursue Jim's idea of a flat payment system for small merchants, and called the new company Square. Square created a series of products focused on economic empowerment and by its 10th birthday was a public company valued at over \$30 billion.

With Square up and running, McKelvey again turned his attention to another serious problem: the personal shortage of programs. His idea to combine professional job placement with free education led him to found a nonprofit called LaunchCode. LaunchCode has trained and employed thousands of people and is opening centers around the nation.

As LaunchCode began to fulfill its mission, McKelvey again turned from the management to others and turned his focus to other social problems. He is now a director of the St. Louis Food Relief Reserve, where Jim shares his entrepreneurial skills with the people running the economy. He is also involved in several projects to help rebuild St. Louis as a vibrant, welcoming city. "I have never really had a career," McKelvey says, "just a series of problems that I care about in different areas of my life. Sometimes the solution is a for-profit company, sometimes a nonprofit charity, and sometimes it's government. But in each case the look of entrepreneurship create new solutions."

Jim McKelvey's story also shows the two kinds of motivation we often see driving most entrepreneurs. One type is based on entrepreneurs who are going into business to improve themselves financially or to launch an improved product or service into the market. This is called opportunity-driven entrepreneurship and is evident in Jim's problem-solving efforts in starting Square and LaunchCode. The other type is where the person becomes an entrepreneur because he or she does not see any workable projects for getting employed by someone else. This is called necessity-driven entrepreneurship. For Jim when graduating college, getting jobs as a glassblower was difficult, so he had to pursue that dream was concrete. That Degree Glass.

**LEARN MORE ONLINE**

Learn more about the topics above at these sites:

- Corporate entrepreneurship: [Early To Rise](http://Early To Rise), [www.earlytorise.com/corporate-entrepreneurship/](http://www.earlytorise.com/corporate-entrepreneurship/)
- Social entrepreneurship: [www.sahibkhan.com/](http://www.sahibkhan.com/)
- Independent entrepreneurship: [Entrepreneur magazine](http://Entrepreneur magazine), [www.entrepreneur.com/](http://www.entrepreneur.com/)

**Entrepreneurship Elsewhere**

As important as entrepreneurship is in the United States, it is more important elsewhere. While in any given year about 10 percent of the workforce in the United States is self-employed or co-located working their own business, that is in other parts of the world can be 50 percent or even 100 percent higher than in the United States. There is a pattern (see Figure 1.2) in which countries are likely to have high rates of entrepreneurship, and which have lower rates.

- In nations where there is little manufacturing, most industry relates to farming and extracting raw materials, such as mining and forestry. In these factor-driven economies such as Pakistan, Jamaica, and Venezuela, entrepreneurship is essential to helping build personal wealth and breaking the cycle of low-wage jobs, and entrepreneurship levels are very high.
- As economic development and a higher basic manufacturing in a more industrialized economy as seen in countries such as Russia, Brazil, and China, it is called an efficiency-driven economy. In these nations, entrepreneurship becomes a key way to build the middle class, and a growing retail and wholesale sector grows alongside businesses that address the needs of large industrial concerns. Entrepreneurship levels in such economies are in the middle range.

**opportunity-driven entrepreneurship**  
Creating a firm to improve one's income or a product or service.

**necessity-driven entrepreneurship**  
Creating a firm as an alternative to unemployment.

**factor-driven economy**  
A nation where the major factors to jobs, investment, and business are the farming, mining, and extraction of raw materials.

**efficiency-driven economy**  
A nation where industrialization is becoming the major factor in jobs, revenue, and taxes, and where manufacturing while maintaining productivity is a key to success.

## 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.

### KEY TERMS

Important technical and professional terms are highlighted in the text and repeated here (and in the end-of-text Glossary) to help students identify and learn.

### 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.

**KEY TERMS**

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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 prevention focus and a weak prevention focus?
3. Could someone with great industry-specific knowledge but low competency in basic 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 retail-based approach to professionalization? Why is that so?
5. What are the stages of the small business life cycle? What stage do high-growth ventures go through that other forms of small business do not?
6. What are the strengths and weaknesses of a team?
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 smooth their way?

**EXPERIENTIAL EXERCISES**

1. Start by writing down which aspects of the entrepreneurial personality describe you the best. Then take the online Entrepreneurial Potential Self-Assessment at [www.entrepreneur.com/assessment/entrepreneurial-potential-test](http://www.entrepreneur.com/assessment/entrepreneurial-potential-test).
- Compare how you imagined yourself to what you observed on the online quiz. Which aspects do you agree with? Which do you disagree with? Are there skills you need to develop or refine based on the results?

**MINI-CASE**

**GEORGE WASHINGTON, DISTILLER AND SEVENTH-CAREER ENTREPRENEUR**

When he stepped off the plane in front of Freedom Hall in New York City on March 4, 1970, George Washington was probably thinking not about the presidency he just handed over to Jimmy Carter, but about the ambitious plan to start a career in retail in Virginia. Most Americans have banked on Washington, farmer, lawyer, soldier, commander, legislator, and president. This new role might be called seventh career, but few realize it.

Washington had owned a plantation for much of his adult life, and he tried to get back to it but found little in the nation's big general and president. By the time he could return to Mount Vernon, he discovered the business was in trouble. The number of people for whom he was responsible had grown from 15 when he inherited the land in 1801 to 100 by the 1860s. Unfortunately, his land grew less and productivity had not kept pace. He was facing bankruptcy.

Facing little else to do, Washington decided on the idea of a distillery when James Anderson, a Scottish immigrant to Virginia, pitched the idea. Washington had some formal education of chemistry, having developed new ways of boiling wine and preparing what for market. He had even received America's first patent.

Anderson's idea made financial sense. Taxes on imported rum were high, and this was getting a rise in the average American's drinking habits. Back in 1792, the average American was annually drinking 5 gallons of distilled spirits like rum and whiskey (today the average is 1.8 gallons). So there was a ready market.

So, working with Anderson, Washington started with two small stills in 1797 making a 170-gallon per whiskey. Production grew to 1700 in 1800, and he had two more 500-gallon per gallon for regular and \$5 per gallon for premium whiskey and a \$2500 profit was made, making Washington America's leading distiller. When Anderson could handle the level of turnover the distillery had, the business side was in Washington's hands. Unfortunately, he failed to take a vacation. Thus Washington died on December 14, 1799. The distillery passed into several hands but began a remarkably profitable decline and was closed for good in 1954.

For more information, see the Virginia Distillers Association page with video [www.virginiadistillers.com/virginia-distillers-distillery-visit-2010/](http://www.virginiadistillers.com/virginia-distillers-distillery-visit-2010/) and the Business Insider video [www.businessinsider.com/1799-12-14.html](http://www.businessinsider.com/1799-12-14.html).

**CASE DISCUSSION QUESTIONS**

1. What advantages would George Washington bring to James Anderson's idea for a Virginia distillery?
2. Washington later was operating near to get the distillery off the ground. What kind of problems could that cause for the new operation?
3. At his death, Washington's distillery was the largest in the United States. Did this make Washington a high-growth entrepreneur or a small business owner? Why?



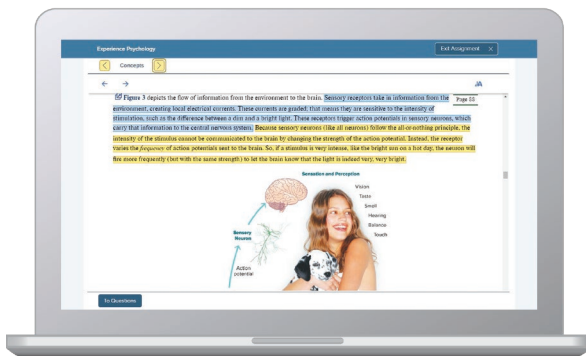
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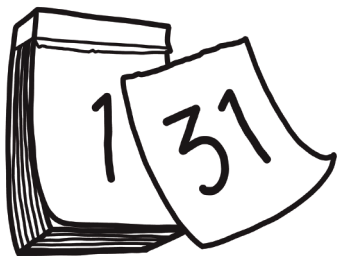
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# Additional Resources

## 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.

## 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 (Fairfield University), Laurel Boone JD (Saint Louis University), Scott Safranski (retired from Saint Louis University), and Susan Peters (Thomas Family Center For Entrepreneurship Distinguished Professor at University of North Carolina at Pembroke). 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 Epner (The Start-up Within), Laura Burkemper (The Catalyst Center), Ron Roy (Wines That Rock), Rob Boyle (Saint Louis University), Beth Schulte (UHY LLP), Tim Murphy (Ziosk), Cyril Loum (Caring Ministries), Jason Bockman (Strange Donuts), Dave Finklang (Anders CPAs), Michael Black (Goliath Trucking), and Ken Herold (Thoughtware LLC and The Startup Within). 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, Amrita Chaturvedi, Andy Hall, Ann Scarlett, Bonnie Wilson, Constance Wagner, Dana Malkus, Dan Brewer, Dannielle Davis, David Barnett, Dorota Skowrya, Greg Beabout, Huliya (Malik)Mallikarjuna, Jan McIntire-Strasburg, Jenna Gorlewicz, Jim Burwinkel, Jin Huang, Joanne Thanavaro, Krishnaswamy (Ravi) Ravindra, Katie Devany, Martin Brief, Michael Korybut, Michael Markee, Michael Swartwout, Mildred Mattfeldt-Beman, Patricia Lee, Ray LeBeau, Rebecca Lorenz, Sanjay Jayaram, Sarah Coffin, Scott Sell, Sridhar Condoor, Srikanth Gururajan, Steve Wernet, Steve Jenkins, Steven Howard, 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 Natalie Gamez Meyer for her contribution of the Red Jett Sweets business plan that you will see in Chapter 8.



*ESB* also builds from an ongoing series of books and special issues edited or co-edited by Jerome Katz over the years, which includes the research series *Advances in Entrepreneurship, Firm Emergence and Growth* (published by Emerald), the text-supplement series *Entrepreneurship and the Management of Growing Enterprises* (published by Sage), and special issues of journals such as *Entrepreneurship: Theory & Practice*, *Entrepreneurship & Regional Development*, *Academy of Management Learning & Education*, and *Simulation & Gaming*. To the dozens of contributors, reviewers, and co-editors who made those publications possible and that information available, a collective thanks does not do justice, but is all that is possible. Theresa Welbourne (Alabama), Ron Mitchell (Texas Tech), Tom Lumpkin (Oklahoma), and Connie Marie Gaglio (San Francisco State) deserve special mention for their unique and repeated contributions to the informational underpinnings of *ESB*. Two names that deserves special mention, however, are Dean Shepherd (Notre Dame) and Andrew Corbett (Babson) whose work as authors and later as a co-editors of the Emerald series shaped many of the key ideas of *ESB*.

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 these 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:

<b>Mary Ewanechko</b> Monroe Community College	<b>Terry Lowe</b> Illinois State University	<b>Martin St. John</b> Westmoreland County Community College
<b>Jonathan Krabill</b> Columbus State Community College	<b>Lisa McConnell</b> Oklahoma State University- Oklahoma City	

McGraw-Hill went to extraordinary lengths to get feedback for the first through fifth editions, and the more than 155 faculty who contributed reviews and insights were central to the creation of a text that was useful from the start. It is on their contributions that this sixth edition is built. Those reviewers in whose debt we remain include David Aiken, Mark Andreason, Dave Arseneau, Jay Azriel, Calvin Bacon, Barrett Baebler, Kunal Banerji, Kevin Banning, Mike Bark, Kenneth Becker, Verona K. Beguin, James Bell, Jim Benton, Phil Bessler, George Blanc, Kay Blasingame-Boike, David Borst, Susan Bosco, Don Bradley, Steven Bradley, Harvey Bronstein, Mark Brostoff, Ingvild Brown, Russell Brown, Rochelle Brunson, Bob Bryant, Robert J. Calvin, Teresa Campbell, Sheri Carder, Kevin Carlson, Martha Carney, Shawn Carraher, Carol Carter, Ed Cerny, Robert Chelle, Jewel B. Cherry, Felipe Chia, John Christesen, Rod Christian, Michael Cicero, William Clark, Ed Cole, J. Robert Collins, Roy Cook, Dan Creed, Wayne Michael Dejnack, Christine DeLaTorre, Cory L. Dobbs, Michael Dougherty, Mike Drafke, Glenda Eckert, Micki Eisenman, Robert Ericksen, Mary Ewanechko, Michael Fathi, Mark Fenton, Gil Feiertag, Brian Fink, Dana Fladhammer, Rusty Freed, Leatrice Freer, Janice Gates, David Gay, Richard Gentry, Jim Giordano, Vada Grantham, Clark Hallpike, David Hansen, Donald Hardwick, Joe Hartnett, Gene Hastings, Brad D. Hays, Linda Hefferin, David Hensley, Diane Henslow, Kirk Heriot, Abel Hernandez, Anne Hernandez, Dorothy Hetmer-Hinds, Bob Hill, Mark Hoelsher, Edward Huff, Fred Hughes, Samira Hussein, Ralph Jagodka, Ken Jones, Lou Jourdan, Rusty

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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.

Jennifer Blankenship served 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 portfolio manager 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 *ESB 6e* that role was ably held by Laura Spell, who quietly went about keeping it all on track. Lisa Granger is now our marketing manager and the person responsible for the selling effort that got *ESB* into your hands. As such, she comes onboard late in the process, but at the critical time for the book's commercial success. In addition, there are people such as Mark Christianson, our program manager, Beth Blech, our designer, Maria McGreal and Emily Windelborn, our content project managers, and Traci Vaske, our content licensing specialist, who made all this possible. To each and every one of these fine publishing professionals, we offer our deepest appreciation. One other former 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. What is wonderful is that our tie to Ryan was renewed in this edition through the involvement of his wife, Jennifer, as a developmental editor. We always feel our best when we know a Blankenship is looking after us.

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 *ESB 6e*. 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 [Valuations.com](http://Valuations.com), which offers a unique web-based model for computing business valuations.

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 thirteenth year of existence with this edition, and the thinking and talking about it stretches back almost 30 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 30 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.

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