CHAPTER 2

The Challenges of Starting a Business

After studying this chapter, you will be able to:

1. Define entrepreneurship and identify the reasons some individuals become entrepreneurs.
2. Describe the importance of small businesses to the U.S. economy and identify the industries in which small businesses are concentrated.
3. Explain what it takes to start a business and summarize the advantages and disadvantages of business ownership.
4. Evaluate the various small business ownership options—starting a new business, buying an existing business, or obtaining a franchise.
5. Discuss the importance of planning for your business and identify the key sections of a business plan.
6. Discuss ways to succeed in managing a business and explain why some businesses fail.

BUILD A BETTER BABY AND THEY WILL COME

In 1993, Mary and Rick Jurmain were watching a TV program about teenage pregnancy. To simulate the challenge of caring for an infant, teens on the program were carrying around sacks of flour. Rick commented that holding a sack of flour was a poor substitute for taking care of a baby. Mary challenged him to use his engineering expertise to come up with a better baby substitute. Two weeks later, he unveiled the prototype of the “Baby Think It Over” infant simulator—a cloth doll with an internal electronic box for making baby noises. Thus, BTIO Educational Products, Inc., was born.

Mary and Rick were willing to accept the risk of starting and running a company to pursue what they identified as a great business opportunity. They set up a manufacturing shop in the garage and an office in the kitchen, and today, their idea has grown into a comprehensive
What Is an Entrepreneur?

Like BTIO, many entrepreneurial ventures are based on innovative ideas. Others are improvements on already existing goods or services. Howard Shultz formed Starbucks to reinvent the coffee experience—to provide customers with quality coffee in a tranquil atmosphere. Michael Dell improved the process of selling computers by eliminating distributors and retail stores and selling directly to the customer.

Do you ever wonder what it would be like to start your own business? Do you ever think that someday you might be an entrepreneur—maybe even an extremely successful entrepreneur like Tom Anderson or Chris DeWolfe, founders of MySpace, the Juice Guys (Nantucket Nectars founders Tom Scott and Tom First), or Pierre Omidyar, who started eBay? Have you thought about the importance of small businesses to the U.S. economy? Would you like some answers to questions like the following: Should I start a business? What are the advantages and disadvantages of starting a business? Should I build a business from scratch, buy an existing business, or invest in a franchise? How do I come up with a business idea? How do I go about planning a business? What steps are involved in developing a business plan? Where would I find help in getting my business started and operating it through the start-up phase? How can I increase the likelihood that I'll succeed?

Answers to these questions can be found in this chapter. Let's start by answering a question that's been implied in just about everything we've said so far: What is an entrepreneur? We'll go with this definition: An entrepreneur is someone who identifies a business opportunity and assumes the risk of creating and running a business to take advantage of it.

WHY BECOME AN ENTREPRENEUR?

Why do people start businesses? According to the Small Business Administration (SBA), a government agency that provides assistance to small businesses, the most common reasons for starting a business are as follows:

- To be your own boss
- To achieve financial independence
- To enjoy creative freedom
- To use your skills and knowledge

What are entrepreneurs like? In general, they're creative people who sometimes accomplish extraordinary things because they're passionate about what they're doing. They are risk-taking optimists who commit themselves to working long hours to reach desired goals. They take pride in what they're doing and get satisfaction from doing something they enjoy. They also have the flexibility to adjust to changing situations in order to achieve their goals.

Entrepreneurs usually start small. They begin with limited resources and build their businesses through personal effort. At the end of the day, their success will depend on their ability to manage and grow the organization that they created to implement their vision.

DISTINGUISHING ENTREPRENEURS FROM SMALL BUSINESS OWNERS

Although most entrepreneurial ventures begin as small businesses, not all small business owners are entrepreneurs.

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**entrepreneur**

Individual who identifies a business opportunity and assumes the risk of creating and running a business to take advantage of it.

**Small Business Administration (SBA)**

Government agency that helps prospective owners set up small businesses, obtain financing, and manage ongoing operations.
While graduate students at Stanford University, Larry Page and Sergey Brin came up with a novel idea for a search engine that ranked Web sites according to the number of hits. They quit graduate school and founded Google in 1998. Their entrepreneurial venture paid off big time—by 2006, both were worth about $13 billion.

Entrepreneurs are innovators who start companies to create new or improved products. They strive to meet a need that’s not being met, and their goal is to grow the business and eventually expand into other markets.

In contrast, many people either start or buy small businesses for the sole purpose of providing an income for themselves and their families. They do not intend to be particularly innovative, nor do they plan to expand significantly. This desire to operate is what’s sometimes called a “lifestyle business.”

The neighborhood pizza parlor or beauty shop, the self-employed consultant who works out of the home, even a local printing company—all of these are typically lifestyle businesses. In the next section, we discuss the positive influences that both lifestyle and entrepreneurial businesses have on the U.S. economy.

Importance of Small Business to the U.S. Economy

To assess the value of small businesses to the U.S. economy, we first need to know what constitutes a small business. Let’s start by looking at the criteria used by the SBA. According to the SBA, a small business is one that is independently owned and operated, exerts little influence in its industry, and (with a few exceptions) has fewer than 500 employees.

There are more than 20 million small businesses in the United States, and these businesses generate about 50 percent of our gross domestic product. Clearly, they’re a major force in our economy. The millions of individuals who have started businesses in the United States have shaped the business world as we know it today. Some small business founders like Henry Ford and Thomas Edison have even gained places in history. Others, including Bill Gates (Microsoft), Sam Walton (Wal-Mart), Steve Jobs (Apple Computer), Michael Dell (Dell, Inc.), and Steve Case (AOL), have changed the way business is done today. Still millions of others have collectively contributed to our standard of living.

Small businesses are important to us for a number of reasons. In particular, they create jobs, spark innovation, and provide opportunities for many people, including women and minorities, to achieve financial success and independence. In addition, small businesses complement the economic activity of large organizations by providing them with components, services, and distribution of their products. These contributions are discussed later in the chapter.

JOB CREATION

Small businesses are a major source of employment. More than half of all U.S. adults are either self-employed or work for businesses with fewer than 500 employees. The majority of Americans made their first entrance into the business world by working for a small business. These enterprises are constantly creating jobs and providing opportunities for a vast number of workers.

Figure 2.1 shows just how many jobs were created by small (and very small) firms between 1992 and 1996, the last year for which there are data. Note particularly the performance of large companies (those with more than 500 employees) over the same period.

INNOVATION

Given the financial resources available to large businesses, you’d expect them to introduce most of the new products that hit the
market. But according to the SBA, 55 percent of all product innovations come from small businesses. For example, the list of important innovations by small high-tech businesses is impressive. It includes the airplane, personal computer, tape recorder, pacemaker, and soft contact lenses.

Owners of small businesses are also responsible for finding new ways of doing old things. In 1994, for example, a young computer-science graduate working on Wall Street came up with the then-novel idea of selling books over the Internet. During the first year of operations, sales at Jeff Bezos’s new company—Amazon.com—reached half a million dollars. In less than 10 years, annual sales grew to more than $3 billion. Bezos’s innovative approach to online retailing not only made its founder very rich but has become a model for the e-commerce industry.

Why are small businesses so innovative? For one thing, they tend to offer environments that appeal to individuals with the talent to invent new products or improve the way things are being done. They tend to make faster decisions, their research programs tend to be focused, and their compensation structures tend to reward top performers. Supportive environments have enabled small firms to turn out twice as many product innovations per employee as large firms.

The success of small businesses in fostering creativity has not gone unnoticed by big businesses. In fact, many companies, such as General Electric, have responded by downsizing to act more like small companies. Some large organizations now have separate work units whose purpose is to spark innovation. Individuals working on these teams can focus their attention on creating new products that can then be developed by the company.

**OPPORTUNITIES FOR WOMEN AND MINORITIES**

Small business is the portal through which many people enter the economic mainstream. Business ownership allows individuals, including women and minorities, to achieve financial success as well as pride in their accomplishments. Although the majority of small businesses are still owned by white males, the past two decades have seen a substantial increase in the number of businesses owned by women and minorities. Figure 2.2 gives you an idea of how many American businesses are owned by women and minorities and indicates how much the numbers grew between 1982 and 2002, the last year for which there are reliable data.
HOW SMALL BUSINESSES HELP LARGE BUSINESSES

Small firms complement large firms in a number of ways. They supply many of the components needed by big companies. For example, a substantial portion of the mind-boggling $90 billion paid annually by General Motors to parts suppliers goes to small businesses. Small firms also provide large ones with such services as accounting, legal, and insurance. Many small firms provide outsourcing services to large firms—that is, they hire themselves out to help with special projects or handle certain business functions. A large firm, for example, might hire a small one to handle its billing or collection services or to manage its health care benefits. A large company might contract with a small information technology firm to manage its Web site or oversee software upgrades.

Small companies provide another valuable service to large companies by acting as sales agents for their products. For example, automobile dealerships, which are generally small businesses, sell vehicles for the big car makers. Local sporting goods stores sell athletic shoes made by industry giants, such as Adidas and Nike. Your corner deli sells products made by large companies like Coca-Cola and Frito Lay.

What Industries Are Small Businesses In?

If you wanted to start a new business, there are some types of businesses that you’d probably reject. For example, it’s unlikely that you’d decide to set up a new company to make automobiles or aluminum. Such ventures require tremendous investments in property, plant, and equipment, and you’d have no way to raise the needed funds or attract the human capital you’d need. But there are, of course, other types of businesses that require low initial investment. Not surprisingly, these types of companies are attractive as small business opportunities.

INDUSTRIES BY SECTOR

To understand where small businesses are concentrated, we first need to divide businesses into two sectors: the goods-producing sector and the service-producing sector. The goods-producing sector includes all businesses that produce tangible goods. Companies in this sector include those involved in manufacturing, construction, and agriculture. The service-producing sector includes all businesses that provide a service but do not make tangible goods. These include firms involved in retail and wholesale trade, transportation, communications, finance, insurance, real estate, and such professional services as health care, advertising, accounting, and personal services.

About 80 percent of small businesses in the U.S. are concentrated in the service-producing sector. Of these, about 25 percent are in retailing, 10 percent in wholesaling, and 35 percent in professional and business services. The goods-producing sector is home to only 20 percent of all small businesses. Nearly two-thirds of these are in construction, the other one-third in manufacturing.

The high concentration of small businesses in the service-producing sector reflects the makeup of the overall U.S. economy. Over the past 40 years, the service-producing sector has been growing at an impressive rate. In 1960, the goods-producing sector accounted for 38 percent of gross domestic product, the service-producing sector for 62 percent. By 2000, the goods-producing sector accounted for only 23 per-
What Industries Are Small Businesses In?

percent of GDP, while the service-producing sector had grown to 77 percent.14

**Goods-Producing Sector**
The largest areas of the goods-producing sector are construction and manufacturing. Construction businesses are often started by skilled workers, such as electricians, painters, plumbers, and homebuilders. They tend to be small and generally work on local projects. Although manufacturing is primarily the domain of large businesses, there are exceptions. For example, Jeffrey Berndt started a company called Reveal Entertainment to manufacture and distribute board games. The company began with its award-winning game, Tripoly—a three-dimensional finance and real estate game in which players buy and build cities. The product line now includes dozens of board games.15

**Service-Producing Sector**
Many small businesses in this sector are retailers—they buy goods from other firms and sell them to consumers, either in stores, by phone, through direct mailings, or over the Internet. Increasingly, entrepreneurs are starting online ventures. This approach was taken by Tony Roeder, who had a fascination with the red Radio Flyer wagons that many of today’s adults had owned as children. In 1998, he started an online store through Yahoo! to sell red wagons from his home. In three years, he turned his online store into a million-dollar business.16 Internet entrepreneurship was also attractive to Sean Lundgren and Todd Livdahl—two computer engineers who gave up successful careers at Disney to turn their fascination with video games and DVDs into an online business. To their delight, the small start-up venture, which they call Sneetch.com, generated sales of $1.2 million during its first year of operation.17

Other small business owners in this sector are wholesalers who sell products to businesses who buy them for resale or for company use. A local bakery is acting as a wholesaler when it sells desserts to a restaurant, which then sells them to its customers. A small business that buys flowers from a local grower (the manufacturer) and sells them to a retail store (the retailer) is another example of a wholesaler.

A high proportion of small businesses in this sector provide professional, business, or personal services. Doctors and dentists are part of the service industry, as are insurance agents, accountants, and lawyers. So are businesses that provide personal services, such as dry cleaning and hairdressing.

David Marcks, for instance, entered the service industry 14 years ago when he learned that his border collie enjoyed chasing geese at the golf course where he worked. Anyone who’s been on a golf course recently recognizes the problems created by geese. Although they are lovely to look at, they leave behind an unwelcome litter of droppings. That’s why frustrated course managers are happy to hire Marcks’ company, Geese Police, to chase the geese away using specially trained dogs. Marcks now has 27 trucks, 32 border collies, and 5 offices. Golf courses are now only about 5 percent of his business, as his dogs now

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**goods-producing sector**
All businesses whose primary purpose is to produce tangible goods.

**service-producing sector**
All businesses whose primary purpose is to provide a service rather than make tangible goods.

Taco Bell is part of the service-producing sector. Each year, close to 150,000 Taco Bell employees serve Mexican-inspired fast food to more than two billion consumers. Annually, its 6,000 franchise and company-owned restaurants in the United States use 3.8 billion corn and flour tortillas, 120 million pounds of lettuce, 62 million pounds of pinto beans, 295 million pounds of seasoned ground beef, and 106 million pounds of cheese.
CHAPTER 2 The Challenges of Starting a Business

ADVANTAGES OF SMALL BUSINESS OWNERSHIP

Being a business owner can be very rewarding. Having the courage to take a risk and start a venture is part of the American dream. Success brings with it many advantages:

- **Independence.** As a business owner, you’re your own boss. You can’t get fired. More importantly, you have the freedom to make the decisions that are crucial to your own business success.
- **Financial Rewards.** In spite of high financial risk, running your own business gives you a chance to make more money than if you were employed by someone else.
- **Lifestyle.** Owning a small business gives you certain lifestyle advantages. Because you’re in charge, you decide when and where you want to work. If you want to spend more time on non-work activities or with your family, you don’t have to ask for the time off. If it’s important that you be with your family all day, you might decide to run your business from your home. Given today’s technology, it’s relatively easy to do. Moreover, it eliminates commuting time.
- **Learning Opportunities.** As a business owner, you’ll be involved in all aspects of your business. This situation creates numerous opportunities to gain a thorough understanding of the various business functions.
- **Creative Freedom and Personal Satisfaction.** As a business owner, you’ll be able to work in a field that you really enjoy. You’ll be able to put your skills and knowledge to use, and you’ll get personal satisfaction from implementing your ideas, working directly with customers, and watching your business succeed.

DISADVANTAGES OF SMALL BUSINESS OWNERSHIP

As the little boy said when he got off his first roller-coaster ride: “I like the ups but not the downs!” Here are some of the risks you run if you want to start a small business:

- **Financial Risk.** The financial resources needed to start and grow a business can be extensive. You may need to commit most of your savings or even go into debt to get started. If things don’t go well, your financial loss can be great. In addition, there’s no guaranteed income. There might be times, especially in the first few years, when the business isn’t generating enough cash for you to live on.
- **Stress.** As a business owner, you are the business. There’s a bewildering array of things to worry about—competition, employees, bills, equipment breakdowns, customer problems. As the owner, you’re also responsible for the well-being of your employees.

Should You Start a Business?

Do you want to be a business owner some day? Before deciding, you might want to consider the following advantages and disadvantages of business ownership.

QUICK QUIZ 2.1

Before going to the next section of this chapter, take a few minutes to test your knowledge of the material covered so far. Go to www.exploringbusinessonline.com
Starting a Business

Starting a business takes talent, determination, hard work, and persistence. It also requires a lot of research and planning. Before starting your business, you should appraise your strengths and weaknesses and assess your personal goals to determine if business ownership is for you.21

If you’re interested in starting a business, you need to make decisions, such as the following:

- What type of business is right for you? Do you want to be a manufacturer, a retailer, or a wholesaler? Do you want to provide professional or personal services? Do you want to start a business that you can operate out of your home?
- Do you want to run a business that’s similar to many others, or do you want to innovate—create a new product or approach to doing business?
- What is your business idea? Is it feasible?
- Do you want to start a new business, buy an existing business, or buy a franchise?
- Do you want to start the business by yourself or with others?
- What form of business organization do you want? Do you want to own the business yourself, or do you want to have other owners and operate as a partnership or a corporation?

After making these decisions, you’ll need to take the most important step in the process of starting a business. You must describe your future business in the form of a business plan, which is a document that

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**business plan**

Formal document describing a proposed business concept, management team, goods or services, competition, product-development process, production methods, and marketing model, and stating financial projections.
identifies the goals of your proposed company and explains how they will be achieved. Think of a business plan as a blueprint for a proposed company: It shows how the business will be built and how you intend to make sure that it’s sturdy. Your final step before actually starting the business will be to get financing—the money from individuals, banks, or both that you’ll need to get started. If you have the necessary funds to finance the business, you can skip this last step.

**THE BUSINESS IDEA**

For some, coming up with a great business idea is a gratifying adventure. For most, however, it’s a daunting task. The key to coming up with a business idea is giving customers something they want—or, more importantly, filling an unmet need. The purpose of starting a business is to satisfy customers—the ultimate users of your goods or services. In coming up with a business idea, do not ask “What do we want to sell?” but rather “What does the customer want to buy?”

To come up with an innovative business idea, you need to be creative. The idea itself can come from various sources. Prior experience accounts for the bulk of new business ideas. Many people generate ideas for industries they’re already working in. Past experience in an industry also increases your chances of success. Take Sam Walton, the late founder of Wal-Mart. He began his retailing career at J.C. Penney and then became a successful franchiser of a Ben Franklin five-and-dime store. In 1962, he came up with the idea of opening large stores with low costs and heavy discounts in rural areas. He founded his first Wal-Mart store in 1962, and when he died 30 years later, his family’s net worth was $25 billion.

Industry experience also gave Howard Schultz his breakthrough idea. In 1981, Schultz, a New York executive for a housewares company, noticed that a small customer in Seattle, Starbucks Coffee, Tea and Spice, ordered more coffeemaker cone filters than Macy’s and a lot of other large customers. So he flew across the country to find out why. His meeting with the owner-operators of the original Starbucks Coffee Co., which resulted in his becoming part owner of the company, changed his life and the life of coffee lovers forever. Schultz’ vision for the company far surpassed that of its other owners. While they wanted Starbucks to remain small and local, Schultz saw potential for a national business that not only sold world-class quality coffee beans, but offered customers a European coffee-bar experience. After trying unsuccessfully to convince his partners to try his experiment, Schultz left Starbucks and started his own chain of coffee bars, which he called *Il Giornale* (after an Italian newspaper). Two years later, he bought out the original owners and reclaimed the name “Starbucks.”

Other people come up with business ideas because of hobbies or personal interests. This was the case with Nike founder Phil Knight, who was an avid runner. He was convinced that it was possible to make high-quality track shoes that cost less than the European shoes then dominating the market. His track experience, coupled with his knowledge of business (Knight holds an MBA from Stanford and worked as an accountant), inspired him to start Nike. From a young age, Michael Dell was obsessed with taking computers apart and putting them back together again, and it was this personal interest that led to his great business idea. At college, instead of...
attending classes, he spent his time assembling computers and, eventually, founded Dell Computers.

**OWNERSHIP OPTIONS**

As we have already seen, you can become a small business owner in one of three ways: by starting a new business, buying an existing business, or obtaining a franchise. Each has its advantages and disadvantages.

**Starting from Scratch**

The most common—and the riskiest—option is starting from scratch. This approach lets you start with a clean slate and allows you to build the business the way you want. You select the goods or services to be offered, the location, and all your employees, and it’s up to you to develop a customer base and build a reputation.

**Buying an Existing Business**

If you decide to buy an existing business, some things will be easier. You will already have a proven product, customers, suppliers, a known location, and trained employees. It will also be much easier to predict the future success of the business. But this route, of course, comes with its own disadvantages. First, it’s hard to determine how much you should pay for a business. You can easily determine how much things like buildings and equipment are worth, but how much should you pay for the fact that the business has steady customers?

In addition, a business, like a used car, might have problems of which you are not aware. Perhaps the current owners have disappointed customers; maybe the location isn’t as good as it used to be. You might inherit employees that you wouldn’t have hired yourself. Finally, what if the previous owners set up a competing business that draws away their former—and your current—customers?

**Getting a Franchise**

Lastly, you can buy a *franchise*. Under this set up, a *franchiser* (the company that sells the franchise) grants the *franchisee* (the buyer) the right to use a brand name and to sell its goods or services. Franchises are used to market products in a variety of industries, including food, retail, hotels, travel, real estate, business services, cleaning services, and even weight-loss centers and wedding services. There are thousands of franchises, many of which are quite familiar—SUBWAY®, McDonald’s, 7-Eleven, Holiday Inn, Budget Rent-A-Car, Radio Shack, and Jiffy Lube.

As you can see from Figure 2.5, franchising has become an extremely popular way to do business. A new franchise outlet opens once every 8 minutes in the United States, where 1 of 12 businesses is now a franchise. Franchises employ 8 million people and account for 40 percent of all retail sales in this country.²⁵

In addition to the right to use a company’s brand name and sell its products, the franchisee gets help in picking a location, starting and operating the business, and...
advertising. In effect, you’ve bought a prepackaged, ready-to-go business that’s proven successful elsewhere. You also get ongoing support from the franchiser, which has a vested interest in your success.

All these advantages don’t come cheaply. Franchises can be very expensive, usually depending on the amount of business that a location is expected to do. For example, some McDonald’s franchises require an initial investment of $500,000 to $1.6 million. This fee includes the cost of the property, equipment, training, start-up costs, and the franchise fee—a one-time charge for the right to operate as a McDonald’s. A KFC outlet is in the same price range. Subways are more affordable, with expected initial investments ranging from $70,000 to $220,000. If you don’t want to deal in food, you might want to buy a dating service. The Right One franchises go for an initial investment of $100,000 to $250,000, depending on location.26

In addition to your initial investment, you’ll have to pay two other fees on a monthly basis—a royalty fee (typically from 3 to 12 percent of sales) for continued support from the franchiser and the right to keep using the company’s trade name and an advertising fee to cover your share of national and regional advertising. You’ll also be expected to buy your products from the franchiser.27

Why do would-be business owners like franchises? For one thing, buying a franchise lets you start up in a fairly safe environment, with a proven model for running a company and an ongoing support team. You can profit from name recognition without having to develop your own image in the marketplace, and you can be your own boss (as long as you comply with the standards set by the franchiser).

But there are disadvantages. The cost of obtaining and running a franchise can be high, and you have to play by the franchiser’s rules, even when you disagree with them. Finally, franchisers don’t always keep their promises. What do you do if promised advertising doesn’t materialize? As with any business venture, you need to do your homework before investing in a franchise.

The Business Plan

If you’re starting a business, it’s essential that you prepare a business plan. It should tell the story of your business concept, specify the qualifications of your management team, describe your legal form of business ownership, explain the goods or services that you intend to sell, identify your customers and competitors, describe your product development and production methods and marketing activities, and state your projected profit and borrowing needs.

The business plan is a blueprint for the company, and it’s an indispensable tool in attracting investors and/or obtaining loans. Remember: The value of your business plan is not limited to the planning stages of your business and the process of finding start-up money. Once you’ve acquired start-up capital, don’t just stuff your plan in a drawer. Treat it as an ongoing guide to your business and a yardstick by which you can measure your performance. Keep it handy, update it periodically, and use it to assess your progress.

Preparing a business plan takes a lot of time, but it’s time well spent. A business plan forces you to think critically about your proposed business and reduces your risk of failure. It forces you to analyze your business concept and the industry in which you’ll be operating, and it helps you determine how you can gain a percentage of sales in that industry. In developing and writing a business plan, you have to make strategic decisions in the areas of management, staffing, production, marketing, and finance—in all the functional areas of business that we described in Chapter 1.

The most common use of a business plan is persuading investors and/or lenders to provide financing. These two groups look for different things. Investors are particularly interested in the quality of the business concept and the ability of management to make the venture successful. Bankers are primarily concerned with the company’s ability to generate cash to repay loans. To persuade investors and lenders to support your business, you need a professional, well-written business plan that paints a clear picture of your proposed business.

SECTIONS OF THE BUSINESS PLAN

Although formats can vary, a business plan generally includes the following sections: executive summary, description of proposed business, industry analysis, mission statement, management plan, goods and/or ser-
vices, development and production, marketing, global issues, and financial plan. Let’s explore each of these sections in turn.

**Executive Summary**
The executive summary is a one- to three-page overview of the business plan. It’s actually the most important part of the business plan: It’s what the reader looks at first, and if it doesn’t capture the reader’s attention, it might be the only thing that he or she looks at. It should therefore emphasize the key points of the plan and get the reader excited about the prospects of the business.

Even though the executive summary is the first thing read, it’s written after the other sections of the plan are completed. An effective approach in writing the executive summary is to paraphrase key sentences from each section of the business plan. This process will ensure that the key information of each section is included in the executive summary.

**Description of Proposed Business**
Here, you present a brief description of the company and answer the following questions:
- What will your proposed company do? Will it be a manufacturer, a retailer, or a service provider?
- What goods or services will it provide?
- Why are your goods or services unique?
- Who will be your main customers?
- How will your goods or services be sold?
- Where will your business be located?

Because later parts of the plan will provide more detailed discussions of many of these issues, this section needs to provide only an overview of these topics.

**Industry Analysis**
This section provides a brief introduction to the industry in which you propose to operate. It describes both the current situation in the industry as well as future possibilities and addresses such questions as the following:
- Who are the players in the industry?
- What is the outlook for the industry?
- What are the total projected sales for the industry? Is it growing or shrinking?
- What factors will influence future expansion or contraction?
- How will predicted future economic conditions affect the industry?

**Mission Statement and Core Values**
This portion of the business plan states the company’s mission statement and core values. The mission statement describes the purpose of your organization—its reason for existence. It tells the reader what the organization is committed to doing. The mission statement can be concise, like the one from Merck Pharmaceutical: “To preserve and improve human life.” Or, it can be more detailed, like the one from Southwest Airlines: “The mission of Southwest Airlines is dedication to the highest quality of customer service delivered with a sense of warmth, friendliness, individual pride, and company spirit.”

Core values are fundamental beliefs about what is and is not appropriate and what is important in conducting company activities. Core values are not about profits but rather about ideals. They will help guide the behavior of individuals in the organization. For example, Coca-Cola reports that its core values—honesty, integrity, diversity, quality, respect, responsibility, and accountability—help employees know what behaviors are acceptable.

**Management Plan**
It isn’t enough just to have a good business idea: You need a talented management team that can turn your concept into a profitable venture. The management plan section provides information about the qualifications of each member of the management team. Its purpose is to convince the reader that the company will be run by well-qualified, experienced managers. It describes each individual’s education, experience, and expertise, as well as each person’s responsibilities. This section also specifies the proposed legal

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**executive summary**
Overview emphasizing the key points of a business plan in order to get the reader excited about the prospects of the business.

**mission statement**
Statement describing an organization’s purpose or mission—its reason for existence—and telling stakeholders what the organization is committed to doing.

**core values**
Statement of fundamental beliefs describing what is appropriate and important in conducting organizational activities and providing a guide for the behavior of organization members.
form of the organization: sole proprietorship (personal ownership), partnership (ownership shared with one or more partners), or corporation (ownership through shares of stock).

**Goods and/or Services**

To succeed in attracting investors and lenders, you must be able to describe your goods or services clearly (and enthusiastically). Here, you describe all the goods and services that you will provide the marketplace. This section explains why your proposed offerings are better than those of competitors and indicates what market needs will be met by your goods or services. It addresses a key question: What competitive advantage will the company have over similar goods or services now on the market?

**Development and Production**

This section indicates how you plan to obtain or make your products. Naturally, the write-up will vary depending on whether you’re proposing a service company, a retailer, or a manufacturer. If it’s a service company, describe the process of providing services. If it’s a retail company, tell the reader where you will purchase products for resale.

If you’re going to be a manufacturer, you must furnish information on product design, development, and production process. You must address questions like the following:

- How will products be designed?
- What technology will be needed to design and manufacture products?
- Will the company run its own production facilities, or will its products be manufactured by someone else?
- Where will production facilities be located?
- What type of equipment will be used?
- What are the design and layout of the facilities?
- How many workers will be employed in the production process?
- How many units will be produced?
- How will the company ensure that products are of high quality?

**Marketing**

This critical section focuses on four marketing-related areas—target market, pricing, distribution, and promotion:

1. **Target Market.** Describe future customers and provide a profile of them based on age, gender, income, interests, and so forth. If your company will sell to other companies, describe your typical business customer.

2. **Pricing.** State the proposed price for each product. Compare your pricing strategy to that of competitors.

3. **Distribution.** Explain how your goods or services will be distributed to customers. Indicate whether they will be sold directly to customers or through retail outlets.

4. **Promotion.** Identify a promotion strategy, indicating what types of advertising you’ll be using.

**Global Issues**

Indicate whether you’ll be involved in international markets, either by buying or selling in other countries. If you’re going to operate across borders, identify the challenges you’ll face in your global environment and explain how you’ll overcome them. If you don’t plan initially to be involved in international markets, state what strategies, if any, you’ll use to move into international markets at a later date.

**Financial Plan**

In preparing the financial section of your business plan, specify the company’s cash needs and explain how you’ll be able to repay debt. This information is vital in obtaining financing. It presents financial projections, including expected sales, costs, and profits (or losses). It refers to a set of financial statements included in an appendix to the business plan. It reports the amount of cash needed by the company for start-up and initial operations and provides an overview of proposed funding sources.

**Appendices**

Here you furnish supplemental information that may be of interest to the reader. For example, you might attach the résumés of
your management team and a set of financial statements.

**QUICK QUIZ**

2.2

Before reading the next section on how to succeed in managing a business, take a moment to test your understanding of how to start a business and write a business plan.

Go to www.exploringbusinessonline.com

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**How to Succeed in Managing a Business**

Being successful as a business owner requires more than coming up with a brilliant idea and working hard. You need to learn how to manage and grow your business. As an owner, you’ll face numerous challenges, a number of which have been identified through focus groups of business owners. Your ability to meet challenges like those discussed next will be a major factor in your success (or failure) as a business owner.

- **Know Your Business.** It seems obvious, but it’s worth stating: Successful businesspeople know what they’re doing. They’re knowledgeable about the industry in which they operate (both as it stands today and where it’s headed in the future), and they know who their competitors are. They know how to attract customers and who the best suppliers and distributors are, and they understand the impact of technology on their business.

- **Know the Basics of Business Management.** You might be able to start a business on the basis of a great idea, but to manage it, you need to understand the functional areas of business—accounting, finance, management, marketing, production. You need to be a salesperson as well as a decision maker and planner.

- **Have the Proper Attitude.** When you own a business, you are the business. If you’re going to devote the time and energy needed to transform an idea into a successful business, you need to have a passion for your work. You should believe in what you’re doing and make a strong personal commitment to your business.

- **Get Adequate Funding.** It takes a lot of money to start a business and guide it through the start-up phase (which can last for over a year). You can have the most brilliant idea in the world, the best marketing approach, and a talented management team, but if you run out of cash, your career as a business owner could be very brief. Plan for the long term and work with lenders and investors to ensure that you’ll have sufficient funds to get open, stay open during the start-up phase, and, ultimately, expand.

- **Manage Your Money Effectively.** As a business owner, you’ll be under constant pressure to come up with the money to meet payroll and pay your other bills. That’s why you need to pay attention to cash flow—money coming in and money going out. You need to control costs and to collect money that’s owed you, and generally, you need to know how to gather the financial information that you need to run your business.

- **Manage Your Time Efficiently.** A new business owner can expect to work 60 hours a week. If you want to grow a business and have some type of non-work life at the same time, you’ll need to give up some control—to let others take over some of the work. Thus, you must develop time-management skills and learn how to delegate responsibility.

- **Know How to Manage People.** Hiring, keeping, and managing good people are crucial to business success. As your business grows, you’ll depend more on your employees. You need to develop a positive working relationship with them, train them properly, and motivate them to provide quality goods or services.

- **Satisfy Your Customers.** You might attract customers through impressive advertising campaigns, but you’ll keep them only by providing quality goods or services. Commit yourself to satisfying—or even exceeding—customer needs.

- **Know How to Compete.** Find your niche in the marketplace, keep an eye on your competitors, and be prepared to
react to changes in the marketplace. The history of business (and much of life) can be summed up in three words: “Adapt or perish.”

HELP FROM THE SBA

Small business owners can get a wealth of assistance from the Small Business Administration (SBA). The SBA bills itself as “America’s Small Business Resource” because it offers an array of programs to help small business owners and prospective business owners. Services include assistance in developing a business plan, starting a business, obtaining financing, and managing an organization.

Through various programs, for example, the SBA is responsible for seeing that small business owners get more than $60 billion a year in financing from lenders and investors. Each year, the SBA 7(a) loan guarantee program helps some 43,000 small businesspeople get loans from private lenders, and as you can see from Figure 2.6, the amount of money guaranteed by the program has risen considerably in the last 30 years.

The SBA also offers management and technical-services training. This assistance is available through a number of channels, including the SBA’s extensive Web site, online courses, and training programs. A full array of individualized services is also available through SBA programs. The Small Business Development Center (SBDC) assists current and prospective small business owners with business problems and provides free training and technical information on all aspects of small business management. These services are available at approximately 1,000 locations around the country, many housed at colleges and universities.

If you need individualized advice from experienced executives, you can get it through the Service Corps of Retired Executives (SCORE). Under the SCORE program, a businessperson needing advice is matched with a team of retired executives who work on a volunteer basis. Together, the SBDC and SCORE help more than 900,000 small businesspersons every year.

WHY DO BUSINESSES FAIL?

By definition, starting a business is risky. Although many businesses succeed, a large proportion fail. For example, one-third of small businesses that have employees go out of business within the first two years. By the four-year mark, 55 percent have gone out of business.

If you’ve paid any attention to the occupancy of shopping malls over a few years, time, you’ve noticed that some retailers close and new ones open up constantly. The same thing happens with restaurants—indeed, with all kinds of small businesses.

There are many and varied reasons why businesses fail, but many experts agree that the vast majority of failures results from some combination of the following problems:

- **Bad Business Idea.** If you got the idea of selling snowblowers in Hawaii, you wouldn’t have much competition, but you’d still be doomed to failure.
- **Cash Problems.** Too many new businesses are underfunded. The owner borrows enough money to set up the business but doesn’t have enough extra cash to operate during the start-up phase,
when very little money is coming in but a lot is being spent.

- **Managerial Inexperience or Incompetence.** Many new business owners have no experience in running a business; many have limited management skills. Maybe an owner knows how to make or market a product but doesn’t know how to manage people. Maybe an owner can’t attract and keep talented employees. Maybe an owner has poor leadership skills and isn’t willing to plan ahead.

- **Lack of Customer Focus.** A major advantage of a small business is the ability to provide special attention to customers. But some small businesses fail to seize this advantage. Maybe the owner doesn’t anticipate customers’ needs or keep up with changing markets or keep an eye on the customer-focused practices of competitors.

- **Inability to Handle Growth.** You’d think that a sales increase would be a good thing. Often it is, but sometimes it can be a major problem. When a company grows, the owner’s role changes. The owner needs to delegate work to others and build a business structure that can handle the increase in volume. Some owners don’t make the shift and find themselves overwhelmed. Things don’t get done, customers become unhappy, and expansion actually damages the company.

This couple has been running a candy store for three years. Because they now want to add two full-time employees, they need to know more about calculating payroll deductions and filing payroll records. Where can they go to get free advice? They could contact the Small Business Development Center (SBDC), which provides free training on all aspects of small business management. If they log on to the SBDC Web site, they could learn about a video-based course called *By the Numbers*, which helps businesspeople with the basic mathematical issues that they face every day.

**QUICK QUIZ**

Before you leave this chapter, take a moment to test your understanding of the last few sections by giving yourself a final “Quick Quiz.”

Go to www.exploringbusinessonline.com

**Where We’re Headed**

This chapter introduced you to the challenges of starting and growing a business. You gained an understanding of the importance of small businesses to the U.S. economy. You explored issues related to starting and managing a company. Perhaps most importantly, you learned about the value of developing a business plan. You found that a business plan is not only an indispensable tool in planning a business, but is necessary to obtain financing for your venture. The remaining chapters of the text will provide you with the knowledge needed to prepare a business plan.

**Small Business Development Center (SBDC)**  
SBA program in which centers housed at colleges and other locations provide free training and technical information to current and prospective small business owners.

**Service Corps of Retired Executives (SCORE)**  
SBA program in which a businessperson needing advice is matched with a team of retired executives working on a volunteer basis.
Summary of Learning Objectives

1. Define entrepreneurship and identify the reasons some individuals become entrepreneurs.
   An entrepreneur is someone who identifies a business opportunity and assumes the risk of creating and running a business to take advantage of it. Commonly cited reasons for becoming an entrepreneur are being your own boss, achieving financial independence, enjoying creative freedom, and using your skills and knowledge.

2. Describe the importance of small businesses to the U. S. economy and identify the industries in which small businesses are concentrated.
   The Small Business Administration (SBA), a government agency that offers an array of programs to help prospective business owners, defines a small business as one that is independently owned and operated, exerts little influence in its industry, and has fewer than 500 employees. Small businesses are essential to the U.S. economy because they create jobs, spark innovation, and provide opportunities for many people, including women and minorities, to achieve financial independence. Small businesses also complement the economic activity of large organizations by providing them with components and services and distributing their products.
   About 80 percent of small businesses in the U.S. are in the service-producing sector. Within this sector, the heaviest concentration of small businesses are in retail and professional and business services. The goods-producing sector is home to only about 20 percent of all small businesses, nearly two-thirds in construction.

3. Explain what it takes to start a business and summarize the advantages and disadvantages of business ownership.
   Starting a business takes talent, determination, hard work, and persistence. It also requires a lot of research and planning. Small business ownership brings with it a number of advantages, including independence, the potential for financial rewards, the possibility of an improved lifestyle, learning opportunities, creative freedom, and personal satisfaction. Small business ownership also comes with some disadvantages, including financial risk, increased stress, substantial time commitment, and the necessity of performing some unpleasant tasks, like firing people. It also entails the risk of failure.

4. Evaluate the various small business ownership options—starting a new business, buying an existing business, or obtaining a franchise.
   Each of these common options for starting a small business has advantages and disadvantages. The riskiest (though most common) choice is starting from scratch. Although this approach lets you build the business the way you want, you have to do everything yourself—come up with a product, location, customer base, and employees—and it’s up to you to build a reputation. Buying an existing business is somewhat easier: You already have a proven product, a known location, customers, and trained employees. On the downside, it’s hard to determine an appropriate price to pay for an existing business. You might also inherit problems that you don’t want or didn’t count on, such as disappointed customers, employees that you wouldn’t have hired yourself, and competition from the previous owner (who might set up a similar business at a new location).
   The third option, buying a franchise, also has advantages and disadvantages. When you buy a franchise, you obtain the right to use a brand name and to sell the franchiser’s goods or services. You can choose from products in a variety of industries, including food, retail, travel, and real estate, and you’re getting a prepackaged, ready-to-go business that’s proven successful elsewhere. You get help from the franchiser (the company that sells the franchise) in picking a location, starting and operating the business, and advertising. As a franchisee, you profit from the franchiser’s name recognition without having to develop your image in the marketplace. But all this help does not come cheaply. Both initial investment costs and operating costs are high, and you have to play by the franchiser’s rules even if you disagree with them. Even though you run your own business, you’re not entirely your own boss.

5. Discuss the importance of planning for your business and identify the key sections of a business plan.
   If you’re interested in starting a business, you need to make a lot of decisions: What type of business is best for you? What is your business idea? Do you want to create a new product or approach to doing business or start a business that is similar to others? Do you want to start a new business, buy an existing business, or buy a franchise? What form of business organization do you want? Do you want to own the business yourself or share ownership with others?
After making these decisions, you’ll need to take the most important step in the process of starting a business: planning for it. You should describe your future business in the form of a **business plan**, which is a formal document describing the company that you want to start. The business plan is a blueprint for your company, and it’s an essential tool in attracting investors and/or obtaining loans. It’s also valuable as an ongoing guide to your business and a yardstick by which you can measure your performance. Preparing a business plan takes a lot of time, but it’s worth the effort. It forces you to think critically about your proposed business and reduces your risk of failure.

Although formats vary, a business plan generally includes the following sections: an **executive summary**, which describes the proposed business and analyzes the industry in which it’s going to compete; a **mission statement** and statement of **core values**; a management plan; a description of goods and/or services; a description of development and production processes; and marketing and financial plans.

6. **Discuss ways to succeed in managing a business and explain why some businesses fail.**

As a business owner, you’ll need to be able to manage and grow your business. It’s a difficult undertaking, but you increase the likelihood of success if you understand the basics of business management and know your business and its industry; have a positive attitude and believe in what you’re doing; get adequate funding to start and continue operating your business; manage your money effectively; make efficient use of your time; understand how to motivate people and develop positive working relationships with your employees; satisfy your customers; and know how to compete in the marketplace.

You can get help in starting and growing a business from the SBA. The SBA also helps small business owners obtain financing, and it offers training and management assistance through a number of programs. The **Small Business Development Center (SBDC)** provides free training and technical information on all aspects of small business management at over 1,000 locations throughout the country. For individualized advice from experienced executives, business owners can call on the **Service Corps of Retired Executives (SCORE)**, which matches business owners with retired executives who volunteer their services.

Despite all the available assistance, the failure rate for small businesses is high. Some of the reasons for small business failure include bad business ideas, managerial inexperience or incompetence, lack of customer focus, and inability to handle growth.

### Questions and Problems

1. **AACSB Analysis**

   Do you have what it takes to be an entrepreneur? To find out, review the attributes mentioned in the text that can be used to characterize entrepreneurs. Next, use the following three-point scale to indicate the extent to which each of the attributes characterizes you: (1) doesn’t sound like me, (2) sounds like me to a certain extent, or (3) sounds a lot like me. Based on your responses, do you think that you have the attributes of an entrepreneur? Do you think you could be a successful entrepreneur? Why or why not?

2. **AACSB Analysis**

   Because you’re convinced that the best way to get rich is to work for yourself, you’re thinking about starting your own business. You have an idea and $100,000 that you just inherited from a great aunt. You even have a location: Palo Alto, California, which (according to a May 2004 *Forbes* magazine article by Betsy Schiffman) is the best place in the United States to get rich. But, there’s a downside: To move to California and start your own business, you’ll have to drop out of college.

   What financial risks should you consider in making your decision? What are your chances of succeeding with your plan? Are you willing to take the financial risk needed to start a business? Why or why not? Are you likely to make more money running your own business than working for someone else?

3. **How “small” is a small business? If a substantial portion of small businesses in the United States suddenly closed, what would be the impact on the U.S. economy? How would all these closings affect workers, consumers, and other businesses?**

4. **Why are most small businesses found in the service-producing sector? Identify five small service-producing businesses that you patronize frequently. What kinds of small businesses are found in the goods-producing sector? What small goods-producing firms do you do business with regularly?**

5. **AACSB Analysis**

   First, identify five advantages of small-business ownership. Next, rank these advantages according to their...
importance to you. Why did you rank them as you did? What factors discourage individuals from small-business ownership? Indicate which of these factors might discourage you from starting a business. Explain why.

6. AACSB > Analysis
It’s the same old story: You want to start a small business but don’t have much money. Go to www.prenhall.com/collins to link to the About.com Web site and read the article, “Business on a Budget.” Identify some businesses that you can start for $20 or less (that’s right—$20 or less). Select one of these opportunities that interests you. Why did you select this business? Why does the idea interest you? What would you do to ensure the business was a success? If you needed assistance starting up or operating your business, where could you find help, and what type of assistance would be available?

7. AACSB > Analysis
If business ownership interests you, you can start a new business, buy an existing business, or obtain a franchise. Evaluate the advantages and disadvantages of each option. Which option do you find most appealing and why? Describe the business you would probably start.

8. Why do some businesses succeed while others fail? Identify three factors that you believe to be the most critical to business success. Why did you select these factors? Identify three factors that you believe to be primarily responsible for business failures, and indicate why you selected these factors.

9. AACSB > Analysis
Let’s start with three givens: (1) college students love chocolate chip cookies, (2) you have a special talent for baking cookies, and (3) you’re always broke. Given these three conditions, you’ve come up with the idea of starting an on-campus business—selling chocolate chip cookies to fellow students. As a business major, you want to start out right by preparing a business plan. To get started, you identified a number of specifics about your proposed business. Now, you need to put these various pieces of information into the relevant section of your business plan. Using the business plan format described in this chapter, indicate the section of the business plan into which you’d put each of the following pieces of information:

a. You’ll bake the cookies in the kitchen of a friend’s apartment.

b. You’ll charge $1 each or $10 a dozen.

c. Your purpose is to make the best cookies on campus and deliver them fresh. You value integrity, consideration of others, and quality.

d. Each cookie will have 10 chocolate chips and will be superior to those sold in nearby bakeries and other stores.

e. You expect sales of $6,000 for the first year.

f. Chocolate chip cookies are irresistible to college students. There’s a lot of competition from local bakeries, but your cookies will be superior and popular with college students. You’ll make them close to campus using only fresh ingredients and sell them for $1 each. Your management team is excellent. You’ll market your product by placing ads in the school paper. You expect first-year sales of $6,000 and net income of $1,500. You estimate start-up costs at $600.

g. You’ll place ads for your product in the college newspaper.

h. You’ll hire a vice president at a salary of $100 a week.

i. You can ship cookies anywhere in the United States and in Canada.

j. You need $600 in cash to start the business.

k. There are six bakeries within walking distance of the college.

l. You’ll bake nothing but cookies and sell them to college students. You’ll make them in an apartment near campus and deliver them fresh.

10. AACSB > Analysis
How would you like to spend your summer collecting trash in a used pickup? Doesn’t sound very appealing, does it? Would you quit college to do it full time? Probably not. But that’s exactly what Brian Scudamore did. And he got very rich doing it. His summer job turned into the company known as 1-800-GOT-JUNK, one of the fastest-growing franchises in the United States and Canada. Go to www.exploringbusinessonline.com to link to the 1-800-GOT-JUNK Web site and learn more about the company. After looking at the site, answer the following questions:

a. What is the company’s business model? What does it do? Where does it do it?

b. Are you the kind of person the company wants to attract as a franchise partner?

c. How much would it cost you to buy a franchise? How much total capital would you need?

d. What kinds of support and services would you receive from the company?

e. Assuming that you had enough money, would you buy a franchise? Why or why not?

As a reward for working hard, take a break and click on the Junk Genie icon on the Web site’s home page. Can you figure out the trick? Pass it along to your friends.
Learning on the Web AACSB

Would You Like to Own a Sub Shop?

How would you like to own your own sandwich shop? You could start one on your own or buy one that’s already in business, but an easier way might be buying a franchise from Subway, the largest fast food franchise in the world (even bigger than McDonald’s). Subway began in 1965 when 17-year-old Fred DeLuca opened a tiny sandwich shop in Bridgeport, Connecticut, hoping to put himself through college. As it turns out, his venture did much more than that. By 1974, DeLuca was franchising his business concept, and today, there are more than 15,000 Subway franchisees in more than 75 countries.

Go to www.exploringbusinessonline.com to link to the Subway Web site and learn more about franchise opportunities with the company. After reviewing the information provided on the company’s Web site, answer the following questions:

1. What do you have to do to get a Subway franchise?
2. How much would it cost to open a Subway shop?
3. What training and support would you receive from Subway?
4. What advantages do you see in buying a Subway franchise rather than starting a business from scratch? What disadvantages do you see?

Career Opportunities

Do You Want to Be an Entrepreneur?

Want to learn what it’s like to be an entrepreneur? To help you decide if life as an entrepreneur might be for you, go to www.exploringbusinessonline.com to link to the WetFeet Web site and review the entrepreneur profiles. Select two entrepreneurs who interest you and for each, do the following:

1. Describe the company that he or she founded.
2. Explain the reasons why he or she became an entrepreneur.
3. Explain what qualities and/or background prepared the individual to start a business.

After reading the interviews with these two entrepreneurs, answer the following questions:

1. What aspects of being an entrepreneur are particularly rewarding?
2. What’s the downside of being an entrepreneur?
3. What challenges do entrepreneurs face?
4. Is entrepreneurship for you? Why or why not?

Ethics Angle AACSB

Term Papers for Sale

You and some fellow classmates are sitting around over pizza one night when someone comes up with an idea for a business. All of you have old term papers and essays lying around, and a couple of you know how to set up a Web page. What if you combine these two assets and start a business selling term papers over the Internet? Over time, you could collect or buy additional inventory from other students, and since some of you are good at research and others are good writers, you could even offer “clients” the option of customized papers researched and written just for them. You figure that you can charge $15 for an “off-the-rack” paper, and for customized jobs, $10 per double-spaced page seems reasonable.

You all agree that the idea is promising, and you and a partner volunteer to put together a business plan. You have no difficulty with the section describing your proposed business: You know what your business will do, what products it will offer, who your customers will be, how your products will be sold, and where you’ll be located. So far, so good.

Let’s pause at this point to consider the following questions:

1. Does selling term papers over the Internet make business sense? Is it a good business idea?
2. Could the venture be profitable?

Let’s continue and find out how the business plan proceeds.

Now, you’re ready for your section on industry analysis. The first question you need to answer is: Who are the players in the industry? To get some answers, you go online, log on to Google, and enter the search term “term papers for sale.” Much to your surprise, up pop dozens of links to companies that have beaten you to market. The first company you investigate claims that it has 250,000 papers in stock, plus a team of graduate students on hand to write papers for anyone needing specialized work.
CHAPTER 2 The Challenges of Starting a Business

There’s also a statement that says, “Our term papers and essays are designed only to help students prepare their own work. Students using our term papers and essays are responsible for writing their own papers, and our work should be cited by these students.”

But back to your business plan. You realize that you’re facing not only stiff competition but an issue which, so far, you and your partners have preferred to ignore: Is this an ethical business that you have in mind? It occurs to you that you could probably find the answer to this question in at least 1 of the 8,484 term papers on ethics available on your competitor’s Web site, but you decide that it would be more efficient to give the question some thoughts of your own.

Let’s pause again to state the question that you’re going to ask yourself:

1. Is the sole purpose of running a business to make a profit, or do you need to be concerned about what your products will be used for? Explain your reasoning.

2. Do you need to consider the ethics of what other people do with your product? Explain your reasoning.

When you report on the problem that you’ve uncovered, your would-be partners are pretty discouraged, some by the prospect of competition and some by the nagging ethical issue. Just as you’re about to dissolve the partnership, one person speaks up: “How about selling software that lets faculty search to see if students have plagiarized material on the Web?”

“Sorry,” says someone else. “It’s already out there. Two students at Berkeley have software that compares papers to a hundred million Web pages.”

Team-Building Skills AACSB

Knowing how to be an effective team member is a vital lifetime skill. It will help you in your academic career, in the business world, and in non-work activities. It takes time and effort to learn how to work in a team. Part of the challenge is learning how to adjust your behavior to the needs of the group. Another part is learning how to motivate members of a group. A well-functioning team allows members to combine knowledge and skills, and this reliance on diverse backgrounds and strengths often results in team decisions that are superior to those made by individuals working alone.

1. **Are You a Team Player?**
   As a first step, you should do a self-assessment to evaluate whether you possess characteristics that will help you be a successful team member. You can do this by taking a “Team Player” quiz available at the career Web site on Monster.com. Go to www.exploringbusinessonline.com to link to this site. You’ll get feedback that helps you identify the characteristics you need to work on if you want to improve your teamwork skills.

2. **Working Together as a Team**
   The best approach to specifying appropriate behavior for team members is to have the team come up with some ground rules. Get together with three other students selected by your instructor and establish working guidelines for your team. Prepare a team report in which you identify the following:
   
a. Five things that team members can do to increase the likelihood of group success.

b. Five things that team members can do to jeopardize group success.

The Global View AACSB

Global Versions of MySpace.com

When Chris DeWolfe and Tom Anderson founded MySpace.com in July 2003, they had no idea that they were headed for an overnight success. Well, almost overnight. Two and one-half years after their entrepreneurial venture had been launched, MySpace.com had nearly 50 million users in the United States, where 1 out of every 10 ads viewed on the Internet was seen on the site. Its popularity caught the attention of news and entertainment mogul Rupert Murdoch, whose News Corporation dished out $580 million for MySpace.com while allowing its founders to stay on as CEO and president.

What’s ahead for MySpace.com? Can its business model be exported outside the United States? Murdoch thinks so; he immediately launched a British version of the site. If you were in charge of global expansion for MySpace.com, what country would you enter next? What country would you avoid? To identify promising and not-so-promising foreign markets, go to www.exploringbusinessonline.com to link to the Country Profiles Web site maintained by BBC News. Study the economic and political profiles of possible candidates and answer the following questions:

1. Why do you think MySpace.com has been so successful in the United States? Cite some examples of the challenges that it faces.

2. If you were in charge of global expansion at MySpace.com, which country would you enter next? Why do you think the MySpace.com business concept will succeed in this country? What challenges will the company face?

3. What country would you avoid? Why is it incompatible with the MySpace.com business concept?
Business Plan Project

Group Report: Your Great Business Idea

INITIAL REPORT
The selection of a business idea is the most important choice that your team will make in this course. Give it some thought, and make your choice carefully. If you need some further advice or guidance on coming up with a great business idea (and most students do), go to Appendix A at the back of this book, entitled “Introducing Your Business Plan,” and consult the section headed “Type of Company.” The team should submit a written report identifying its great business idea and explaining its choice. The report should be about two double-spaced typed pages. The name of your proposed business and the names of all team members should appear on the report.

REASONABLE CONTRIBUTIONS
All members of the team who make a reasonable contribution to the report should sign it. If any team member does not work on the report, his or her name should not appear on it. If a student who has made a contribution is unable to sign the report (because of sickness or some other valid reason), the team can sign his/her name. To indicate that a name was signed by the team on a member’s behalf, be sure to attach a note to the signature.