

CHAPTER 2

THE CHALLENGES OF STARTING A BUSINESS

OBJECTIVE 1—Define *entrepreneurship* and identify the reasons some individuals become entrepreneurs.

1.1—What is an *entrepreneur*? [PowerPoint 2-3]

An **entrepreneur** is someone who identifies a business opportunity and assumes the risk of creating and running a business to take advantage of it.

1.1.1—Why do people become entrepreneurs? [PowerPoint 2-4]

There are 4 main reasons why people want to become entrepreneurs:

- To be their own bosses
- To achieve financial independence
- To enjoy creative freedom
- To use their skills and knowledge

1.1.2—IN-CLASS ACTIVITY
Yes, But Is It Ethical?
Questions: *Ethics Angle:* Term Papers for Sale
Description: How about starting an online business selling term papers? Sounds like a good idea, but is it ethical?

1.1.2—Appropriate In-Class Use				
Pages	Discussion	Team Activity	Class Time	Assign Ahead
<i>EB</i> 41 <i>IM</i> 85	√		20 minutes	Not necessary

1.1.3—What are entrepreneurs like?

According to the text, entrepreneurs:

- Are creative
- Are passionate about what they’re doing
- Are risk-taking optimists
- Work long hours to reach desired goals

- Take pride in what they're doing
- Get satisfaction from doing something they enjoy
- Have the flexibility to adjust to changing situations

1.1.4—IN-CLASS ACTIVITY

Entrepreneurial Attributes

Question: *Questions and Problems #1*

Description: Referring to the entrepreneurial attributes discussed in the text, use the following table to indicate the extent to which each attribute characterizes *you*. Do *you* have what it takes to be a successful entrepreneur?

Attributes of Entrepreneurs	(1) Doesn't sound like me	(2) Sounds like me to a certain extent	(3) Sounds a lot like me
Are creative	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Are passionate about what they're doing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Are risk-taking optimists	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Work long hours to reach desired goals	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Take pride in what they're doing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Get satisfaction from something they enjoy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Have flexibility to adjust to changing conditions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

1.1.4—Appropriate In-Class Use

Pages	Discussion	Team Activity	Class Time	Assign Ahead
<i>EB</i> 39 <i>IM</i> 73	√		15 minutes	Not necessary

1.2—Entrepreneurs vs. Small Business Owners [PowerPoint 2-5]

Most entrepreneurial ventures begin as small businesses, but not all small business owners are entrepreneurs. Here are the important distinctions between entrepreneurs and small business owners who start lifestyle businesses:

Entrepreneurs	Small business owners who start lifestyle businesses
Are innovators	Aren't innovators
Start businesses to create new or improved products	Start businesses to provide incomes
Plan to grow and expand	Have no plans for expansion
<i>Examples:</i> Google, MySpace, Apple Computer	<i>Examples:</i> Local beauty shop, pizza parlor, print shop

OBJECTIVE 2—Describe the importance of small businesses to the U.S. economy and identify the industries in which small businesses are concentrated.

2.1—What is a *small business*? [PowerPoint 2-6]

The Small Business Administration (SBA) defines a **small business** as one that:

- Is independently owned
- Exerts little influence in its industry
- Has fewer than 500 employees

2.1.1—Many well-known “big” businesses started out as small businesses: [PowerPoint 2-7]

- Microsoft
- Wal-Mart
- Apple Computer
- Dell Computer
- AOL

2.2—Why are small businesses important to the U.S. economy?

[PowerPoint 2-8]

There are 4 main reasons why small businesses are important to the U.S. economy:

- ***They create jobs***
More than three-fourths of all new jobs are created by small businesses [PowerPoint 2-9]
- ***They spark innovation***
Examples: Airplane, PC, soft contact lenses [PowerPoint 2-10]
Small businesses are innovative because they foster: [PowerPoint 2-11]
 - Environments that attract talent
 - Faster decision making
 - Focused research
 - Compensation packages that reward top performers

- *They provide opportunities to achieve financial success*
Including opportunities for women and minorities [PowerPoint 2-12]
- *They support big businesses by providing services and distributing products*
[PowerPoint 2-13]

2.2.1—IN-CLASS ACTIVITY

Small Businesses and the U.S. Economy

Question: *Questions and Problems #3*

Description: What would be the affect on the U.S. economy if a substantial portion of small businesses closed? How would these closings affect workers, consumers, and other businesses?

2.2.1—Appropriate In-Class Use

Pages	Discussion	Team Activity	Class Time	Assign Ahead
<i>EB 39</i> <i>IM 75</i>	√		10 minutes	Not necessary

2.3—In which sector do we find most small businesses—goods producing or service? [PowerPoint 2-14]

80% are in the service sector; 20% are in the goods-producing sector.

2.3.1—In what *industries* do we find most small businesses? [PowerPoint 2-15]

- Non-retail services 40%
- Retail 20%
- Construction 12%
- Insurance, finance, real estate 8%
- Wholesale 7%
- Manufacturing 6%
- Other 7%

2.3.2—IN-CLASS ACTIVITY

What Small Businesses Do You Patronize?

Question: *Questions and Problems #4*

Description: What small service-producing businesses do you patronize frequently? With what small goods-producing firms do you do business regularly?

2.3.2—Appropriate In-Class Use				
Pages	Discussion	Team Activity	Class Time	Assign Ahead
EB 39 IM 76	√	√	10 minutes	Not necessary

OBJECTIVE 3—Explain what it takes to start a business and summarize the advantages and disadvantages of business ownership.

3.1—What are the advantages and disadvantages of starting a business? [PowerPoint 2-16]

3.1.2—Teaching Tip: You can ask this as a general question or you can ask students if any of them or their parents run their own businesses. Ask those who say yes to identify some of the advantages and disadvantages that they or their parents have encountered. (Students are typically quite willing to share this information.)

Advantages:

- **Independence**—you're your own boss
- **Financial rewards**—you might be more successful financially by running your own business than by working for someone else
- **Lifestyle**—you enjoy the flexibility to work *when* you want and, sometimes, *where* you want
- **Creative freedom and personal satisfaction**—you get to work at something you enjoy
- **Learning opportunities** (students often omit this item)

Disadvantages:

- **Financial risk**—you might earn a living but not necessarily much more (compare the long hours with no guaranty of financial success)
- **High stress level**—you'll have a lot to worry about
- **Huge time commitment** [see PowerPoint 2-17]
- **Undesirable duties**—when you first start a business, you might have to do just about everything that needs to be done, including some unpleasant tasks, such as firing people (students don't usually mention this drawback)

3.1.3—IN-CLASS ACTIVITY

Advantages and Disadvantages of Small Business Ownership

Question: *Questions and Problems #5*

Description: Identify 5 advantages of small business ownership and then rank them according to their

importance to *you*. What factors *generally* discourage people from starting small businesses? Which of these factors might discourage *you* from starting a business.

3.1.3—Appropriate In-Class Use				
Pages	Discussion	Team Activity	Class Time	Assign Ahead
EB 39 IM 76	√	√	10 minutes	Not necessary

3.2—Let’s say that you have the talent and determination to launch a business. What decisions do you need to make when starting out? [PowerPoint 2-18]

You should consider 6 questions:

- What type of business is right for you (manufacturer, retailer, wholesaler, professional-services provider)?
- Should you start a business that’s similar to others or innovate (come up with a new product or a way to do something better)?
- What’s your great business idea? Is it feasible?
- Should you start a completely new business, buy an existing business, or buy a franchise (we’ll expand on these options later)?
- Do you want to start the business by yourself or with others?
- What legal form of organization do you want to use: sole proprietorship, partnership, corporation (again, we’ll expand on these options later)?

3.2.1—IN-CLASS ACTIVITY

Should You Drop Out of School and Start a Business?

Question: *Questions and Problems #2*

Description: Because you’re convinced that the best way to get rich quick is to work for yourself, you’re thinking about starting your own business. You have an idea, \$100,000 that you just inherited, and a location—Palo Alto, CA (the best place in the U.S. to get rich). Should you drop out of college and start your own business? What financial risks should you consider? What are your chances of succeeding? Will you in fact make more money running your own business than working for someone else?

3.2.1—Appropriate In-Class Use				
Pages	Discussion	Team Activity	Class Time	Assign Ahead
EB 39 IM 74	√	√	15 minutes	Not necessary

3.3—What’s the most important step in the process of starting a business?

Creating a *business plan*: a document that identifies the goals of your proposed company and explains how they’ll be achieved—a blueprint for your proposed company

[PowerPoint 2-19]

[*Note*: There’s an expanded discussion of the business plan later in this chapter.]

3.3.1—What’s the purpose of a business plan? [PowerPoint 2-20]

Basically, a business plan serves 3 purposes:

- It shows how your business will be built.
- It shows how you intend to make it successful.
- It shows how your business will be financed.

3.4—So you want to start a business. How do you come up with a great business idea? [PowerPoint 2-21]

3.4.1—Teaching Tip: Alert the students to the fact that the following concepts are very, very, very important:

- The key to coming up with a great 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*.
- In coming up with a business idea, don’t ask, “What do I want to sell?” but rather “*What does my customer want to buy?*”

3.4.2—So once again: How do you come up with a great business idea? [PowerPoint 2-21]

3.4.3—Teaching Tip: Ask students to generate a list of idea sources. Here are some mentioned in the text:

- Rely on past experiences (perhaps as a customer).
- Think about your hobbies or other interests (that’s what Nike’s Phil Knight did—he was a runner who wanted to serve the needs of runners).
- Consider your past experience in an industry (that’s what Wal-Mart’s Sam Walton did—he worked in retail and wanted to open his own store to sell goods at low prices).

3.5—Teaching Tip: Who Did What to Make Nike a Reality?

There’s considerable overlap between the “Nike’s History” video segment and the written Case Note “*About Nike 2.1: Nike’s Early Years*.” Both feature discussion questions and responses. You might have students read the Case Note prior to class and then show the video in class. After discussing Nike’s early history, you might assign the Case Note “*About Nike: A Couple of Final Questions*” (IM p. 73), which solicits student opinions on the contributions made by the main figures in the early Nike story—Phil Knight, Bill Bowerman, Jeff Johnson, and Steve Prefontaine.

3.5.1—NIKE VIDEO

Nike's History

[www.exploringbusinessonline.com]

Description: Nelson Farris, one of Nike's first employees, talks about the firm's early history, providing insights into why the young company survived.

Suggested In-Class Use: You can show the 8-minute video, entitled "Nike's History," in class and use it to engage students in a discussion of the firm's early history. Streaming videos are available online for student review.

Discussion Questions are included on p. 67 of the *Instructor's Manual*.

3.5.2—ABOUT NIKE 2.1

Nike's Early Years: Blue Ribbon Sports: Nike's Predecessor (1964-1971)

[www.exploringbusinessonline.com]

Description: Find out how Nike was started, survived, and prospered during its formative years. Learn about the main characters in the Nike story—Phil Knight, Bill Bowerman, Jeff Johnson, and Steve Prefontaine.

Suggested In-Class Use: Ask students to read the Case Note prior to class.

Discussion Questions are included with the Nike Case Notes and on p. 59 of the *Instructor's Manual*.

OBJECTIVE 4—Evaluate the various small business ownership options—starting a new business, buying an existing business, or obtaining a franchise.

4.1—Phil Knight decided to start Nike from scratch. What other options are there for starting a business? What are the advantages and disadvantages of each? [PowerPoint 2-22]

Let's focus on 3 options:

1. Start from scratch (as Knight did)

Advantages:

- You can build your business your way.
- You select everything—product, location, employees.

Disadvantage:

- It's your riskiest option—your idea is unproven.

2. Buy an existing business**Advantages:**

- You get a proven product or service, customers, location, employees, suppliers.
- It's easier to predict your likelihood of success.

Disadvantages:

- It's tough to decide how much to pay for the business.
- The business could have existing drawbacks (disappointed customers, upset employees, a location that's going downhill, a former owner who can compete with you).

3. Get a franchise**4.1.1.—What's a franchise?**

Think of McDonald's, which, as the *franchiser*, grants the buyer of a franchise (the *franchisee*) the right to use its brand name and sell its products.

Franchising has become an extremely popular way to do business. A new franchise opens every 8 minutes in the U.S., where 1 of 12 businesses is now a franchise. [PowerPoint 2-23]

Advantages: [PowerPoint 2-24]

- You get a known brand (and a ready-to-go business).
- You get lots of help in starting and running your business.
- You get help in advertising.
- You get ongoing support.
- Your investment is safer—the business is proven and customers often know the product.

Disadvantages: [PowerPoint 2-24]

- Cost—franchises are expensive to buy and run.
- You must pay a *franchise fee* to get a franchise.
- You must pay a *royalty fee* to keep running the business.
- You must buy the franchiser's stuff (food and other products, etc.).
- You must abide by the franchiser's rules.
- The franchiser may fail to perform as promised.

4.1.2—IN-CLASS ACTIVITY

A Subway Franchise

Questions: *Learning on the Web:* Would You Like to Own a Sub Shop?

Description: Subway began in 1965, when 17-year-old Fred DeLuca opened a tiny sandwich shop hoping to put himself through college. Go to Subway's Web site and learn about franchise opportunities. Examine the pros and cons of buying a franchise and decide whether you'd be interested in buying a Subway franchise.

4.1.2—Appropriate In-Class Use

Pages	Discussion	Team Activity	Class Time	Assign Ahead
EB 41 IM 82	√		15 minutes	Recommended: Students need to go online

OBJECTIVE 5—Discuss the importance of planning for your business and identify the key sections of a business plan.

5.1—How does a *business plan* tell the story of your proposed business? [PowerPoint 2-25]

It tells the story of your business concept by describing the following items:

- The qualifications of your management team
- Your legal form of business ownership
- The goods and services that you'll provide
- Your customers and competitors
- Your product development, production, and marketing activities
- Your projected profits and borrowing needs

5.1.1—Teaching Tip: The Shelf Life of a Business Plan

Remind students that a business plan is helpful *beyond the start-up phase*—that it can be an ongoing guide to operating your business and a yardstick to measure its performance.

5.2—What are the benefits of a business plan? [PowerPoint 2-26]

The process of preparing a business plan:

- Forces you to think critically about your business
- Reduces your risk of failure

- Makes you analyze your business concept and the industry in which you'll operate
- Forces you to make strategic decisions in the areas of management, staffing, production, marketing, and finance [PowerPoint 2-27]
- Persuades investors and lenders to give you money

5.3—What do investors and lenders look for in a business concept?

- **Investors:** quality of the business concept and the ability of management to make the venture successful
- **Bankers:** ability of the business to generate cash to repay its loans

5.4—What are the sections of a business plan?

We've divided the business plan into 11 sections:

- **Executive Summary [PowerPoint 2-29]**
The most important part: Written after rest of it's completed, it provides an overview of the plan.
- **Description of Business [PowerPoint 2-30]**
Provides a brief description of your company, explaining the following items:
 - What the business will do
 - What products it will provide
 - What's unique about it
 - Who its customers are
 - How it will sell its products
 - Where it will be located
- **Industry Analysis [PowerPoint 2-31]**
Introduces the industry in which the firm will be competing, including the following items:
 - Players in the industry
 - Size (in terms of total sales)
 - Outlook (whether it's growing or shrinking)
 - Expected future influences on the industry

[Note: This topic is covered in Chapter 6.]
- **Mission Statement and Core Values [PowerPoint 2-32]**
Presents 2 statements:
 - **Mission Statement:** Purpose or mission of the company
 - **Core Values:** Fundamental beliefs about what is and isn't appropriate in conducting the company's activities

[Note: These topics are covered in Chapters 3 and 4.]
- **Management Plan [PowerPoint 2-33]**

Furnishes information on the qualifications of the management team, especially its ability to turn a business concept into a profitable venture

Also describes the proposed legal form of the organization—sole proprietorship, partnership, or corporation

[*Note:* These topics are covered in Chapters 4 and 5.]

- **Goods and/or Services [PowerPoint 2-34]**

Describes the goods and services that the company will provide; also explains why they're better than those offered by the competition and how they'll fulfill an unmet need

[*Note:* This topic is covered in Chapters 6 and 7.]

- **Product Development and Production [PowerPoint 2-35]**

Indicates how the firm plans to obtain or make its products; will vary depending on whether it's a service provider, retailer, or manufacturer

[*Note:* This topic is covered in Chapter 6.]

- **Marketing [PowerPoint 2-36]**

Focuses on 4 marketing-related areas:

- Target market
- Pricing
- Distribution
- Promotion

Also addresses e-commerce.

[*Note:* These topics are covered in Chapters 7 and 11.]

- **Global Issues [PowerPoint 2-37]**

Describes any involvement in international markets; identifies global challenges and approaches for overcoming them

[*Note:* This topic is covered in Chapter 8.]

- **Financial Plan [PowerPoint 2-38]**

Presents financial projections covering the following items:

- Expected sales
- Costs
- Profits
- Cash needed for start-up and operations
- Sources of funding

[*Note:* These topics are covered in Chapters 9 and 10.]

- **Appendices [PowerPoint 2-39]**

Covers supplemental information, such as management-team résumés and detailed financial statements

5.4.1—IN-CLASS ACTIVITY

Where Does It Go in the Business Plan?

Question: *Questions and Problems #9*

Description: You're given 12 pieces of information about a proposed business to sell chocolate chip cookies to college students. Using the format described in the chapter, put these various pieces of information into the relevant section of a business plan.

5.4.1—Appropriate In-Class Use

Pages	Discussion	Team Activity	Class Time	Assign Ahead
<i>EB 40</i> <i>IM 79</i>	√	√	15 minutes	Not necessary

5.4.2—BUSINESS PLAN PROJECT

The business plan project begins in this chapter. The document entitled “Introducing Your Business Plan” (which appears in Appendix A, p. 307 of the text) provides an overview of the project and presents a suggested format for the plan itself. The format is similar to the one introduced in this chapter. The first assignment is described in the document entitled “Group Report: Your Great Business Idea,” which you can find on p. 43 of the text. Each team is asked to submit a written report identifying its great business idea and explaining why it selected this idea for further development.

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

6.1—Game Playing: Getting Ahead in the Race to Success

Divide your students into teams. Ask each team to assume that its members have just become owners of the Indianapolis Motor Speedway. This automobile-racing track is the largest sports facility in the world and can seat 250,000 people in the stands and another 400,000 in the infield. Ask each team to draw up a list of things that the team could do, as the owners of the business, to ensure the raceway's continued success. Ask some teams to present their lists to the class. [*Note:* Don't let students use their books for this exercise.]

Lists will probably reflect the one presented on p. 25 of the text: **[PowerPoint 2-40]**

- ***Know your business:*** Successful business owners know what they're doing.

- **Know the basics of business management:** You can start a business on the basis of a great idea, but to run it, you need to understand the functional areas of business—accounting, finance, management, marketing, production.
- **Have the proper attitude:** If you own it, you *are* the business; you must have a passion for your work.
- **Get adequate funding:** You can have a tremendous business idea, a talented management team, and a brilliant marketing strategy, but if you run out of cash, your career as a business owner could be very brief.
- **Manage your money effectively:** Pay attention to cash flow—money coming in and money going out.
- **Manage your time efficiently:** You can't do everything, so develop some time-management skills and learn to delegate.
- **Know how to manage people:** Hiring, keeping, and managing good people are crucial to the success of any business.
- **Satisfy your customers:** Commit yourself to satisfying—even exceeding—customer needs.
- **Know how to compete:** Find your niche in the market and keep an eye on your competitors.

6.2—If you're struggling to start or run your own business, what can the **Small Business Administration (SBA)** do to help?

The SBA offers assistance in the following areas:

- Assistance in developing a business plan, starting a business, obtaining financing, and managing an organization **[PowerPoint 2-41]**
- Financial assistance through loan-guarantee programs **[PowerPoint 2-42]**
- Training and assistance with business problems through Small Business Development Centers **[PowerPoint 2-42]**
- Teams of retired executives to furnish business advice through the Service Corps of Retired Executives (SCORE)

6.3—Game Playing: Prescriptions for Failure

In 30 seconds, match up the business scenarios in the left-hand column with one of the common reasons for businesses failure in the right-hand column: **[PowerPoint 2-43]**

Business Scenarios	Reasons for Failure
1. A recycling plant powered by people riding bikes	a. Lack of customer focus (4)
2. A casino with \$1,000 In start-up cash	b. Cash problems (2)
3. A nursing home headed by a geologist	c. Bad business idea (1)
4. A washing machine-repair shop that refuses to schedule days on which repairs will be made	d. Inability to handle growth (5)

5. A restaurant that's tripled in size but refuses to add any waitresses
- e. Managerial inexperience or incompetence (3)

6.4—IN-CLASS ACTIVITY

Business on a Budget

Question: *Questions and Problems #6*

Description: Prior to class, read the article entitled “Business on a Budget,” and then select a business of interest to you that can be started for \$20 or less. Be prepared to make a brief presentation to the class in which you identify the business you’ve selected and indicate all of the following: (a) why the businesses interests you; (b) what you should do to ensure its success; (c) where you’d go for any needed business assistance.

6.4—Appropriate In-Class Use

Pages	Discussion	Team Activity	Class Time	Assign Ahead
<i>EB 40</i> <i>IM 77</i>	√	√	15 minutes	Not necessary

6.5—ABOUT NIKE 2.2

Nike’s Phenomenal Growth: Successes and Challenges, 1980 to the Present

[www.exploringbusinessonline.com]

Description: Learn about some of the most notable successes in the history of Nike, as well as some of the crucial challenges that the firm faced in a period of sustained growth. We’ll explore both Nike’s successes and challenges in more detail in subsequent chapters.

Suggested In-Class Use: This case introduces students to many of the Nike topics that they’ll encounter throughout the course. As the Nike story unfolds, students will learn more about the challenges faced by the company as well as its accomplishments. They’ll also develop an understanding of what it takes to create and sustain a successful company.

Discussion Questions are included with the Nike Case Notes and on p. 63 of the *Instructor’s Manual*.

6.6—NIKE MEMO-WRITING ASSIGNMENT

Factors Contributing to Nike's Success

Description: As a new Nike intern, you attended a company dinner and sat next to a personable Nike veteran named Simon Pestridge. You were enjoying participating in a lively discussion of the reasons for Nike's success when Pestridge was called from the room. As he got up, however, he said, "Send me a memo telling me what factors you think have contributed to Nike's success."

Suggested In-Class Use: You can use student memos to fuel discussion or debate about the reasons for Nike's success. Ask students to complete the writing assignment or simply to read the suggested materials. In either case, they should come to class ready to discuss or debate the issues, whether as a class or in groups.

Discussion Material is included with the Memo-Writing Assignment on p. 72 of the *Instructor's Manual*.

COMPREHENSIVE IN-CLASS ACTIVITIES

C1—COMPREHENSIVE IN-CLASS ACTIVITY 1-800-GOT-JUNK?

Question: *Questions and Problems #10*

Description: 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. Check out the company's Web site and decide whether you'd buy a 1-800-GOT-JUNK? franchise. Present your conclusions to the class.

C1—Appropriate In-Class Use				
Pages	Discussion	Team Activity	Class Time	Assign Ahead
EB 40 IM 81	√		20 minutes	Recommended: Have students go to the 1-800-GOT-JUNK? Web site

C2—COMPREHENSIVE IN-CLASS ACTIVITY

Is Entrepreneurship for you?

Questions: *Career Opportunities:* Do You Want to Be an Entrepreneur?

Description: Go to the Wetfeet Web site and review the entrepreneur profiles. Select two entrepreneurs who interest you. Find out what they do, why they do it, and what qualities or experiences prepared them to start businesses. Decide if entrepreneurship is for you. Discuss your conclusions with the class.

C2—Appropriate In-Class Use				
Pages	Discussion	Team Activity	Class Time	Assign Ahead
EB 41 IM 83	√		20 minutes	Recommended: Students must go first to the Wetfeet site

C3—COMPREHENSIVE IN-CLASS ACTIVITY

Are You a Team Player?

Questions: *Team-Building Skills:* Are You a Team Player?

Description: Knowing how to be an effective team member is a vital life-time skill, but it takes time and effort to learn how to work on a team. As a first step, assess whether you possess characteristics that will help you be a successful team member by taking a “Team Player” quiz available online. Then meet with your fellow team members and have the group come up with ground rules to increase the likelihood of your team achieving success.

C3—Appropriate In-Class Use				
Pages	Discussion	Team Activity	Class Time	Assign Ahead
EB 42 IM 87	√	√	20 minutes	Recommended: Have students take online “Team Player” test prior to meeting with team

C4—COMPREHENSIVE IN-CLASS ACTIVITY

Going Global with MySpace.com

Questions: *The Global View:* Global Versions of MySpace.com

Description: What’s ahead for MySpace.com? Can its business model be exported out of the U.S.? If you were in charge of global expansion for Myspace.com, what country would you enter first? What country would you avoid? To identify promising and not-so-promising foreign markets, go to the “Country Profiles” Web site maintained by BBC News. Study the economic and political profiles of possible candidates. Answer a number

of questions, including: Why has MySpace.com been so successful in the U.S.? Which country would you enter and why? Which country would you avoid and why?

C4—Appropriate In-Class Use				
Pages	Discussion	Team Activity	Class Time	Assign Ahead
<i>EB 42</i> <i>IM 88</i>	√	√	20 minutes	Recommended: Students should go online before class and select countries

C5—COMPREHENSIVE IN-CLASS NIKE ACTIVITY

Who Was Who at Nike?

Questions: *About Nike:* A Couple of Final Questions: The Main Characters in Nike’s Success Story

Description: You know something about the roles played by these key individuals in Nike’s success—Phil Knight, Bill Bowerman, Jeff Johnson, and Steve Prefontaine. Supplement this knowledge with further information available on Nike’s Web site and answer the following questions: What contribution did each of these men make to Nike’s success? How would Nike be different today without the influence of these individuals?

C5—Appropriate In-Class Use				
Page	Discussion	Team Activity	Class Time	Assign Ahead
<i>IM 73</i>	√		20 minutes	Recommended: Students should research individuals on Nike’s Web site

LEARNING LABS

The following **Learning Labs**—which engage students in active learning and help them master key concepts—are available at www.exploringbusinessonline.com:

Learning Lab 2.1: This Learning Lab gives students a chance to discover some surprising things about the psychology of entrepreneurs.

Learning Lab 2.2: This exercise helps students decide if business ownership is for them.

Learning Lab 2.3: This Learning Lab helps students learn how to compose a mission statement.

NIKE MATERIALS

- *About Nike Cases:*
 - 2.1 Nike's Early Years: Blue Ribbon Sports: Nike's Predecessor (1964-1971)
 - 2.2 Nike's Phenomenal Growth: Successes and Challenges, 1980 to the Present
- *Nike Video:* History of Nike
- *Nike Memo-Writing Assignments:* Sample Memo
- *Memo-Writing Assignment:* Factors Contributing to Nike's Success
- *About Nike:* A Couple of Final Questions: The Main Characters in Nike's Success Story

ABOUT NIKE 2.1: NIKE'S EARLY YEARS

Blue Ribbon Sports: Nike's Predecessor (1964-1971)

[3.5.2—About Nike 2.1 / C5—Comprehensive In-Class Nike Activity]

Discussion Questions

1. **The purpose of both Blue Ribbon Sports and Nike has always been to “serve the athlete.” What does the company do to satisfy this goal? How did Bowerman practice these same principles while coaching runners at the University of Oregon?**
 - Nike listens to athletes, finds out what they want, and provides them with products that will enhance their performance.
 - Bowerman taught his runners to compete: He listened to them, adapted training programs to help them put their training into practice, and constantly sought new ways to help them perform at the highest level.
2. **Describe the early employees of Blue Ribbon Sports: What characteristics did they possess, and how did they benefit the company?**

Nike's early employees:

- Had a passion for what they were doing
- Were committed, focused, competitive, and motivated to get the job done
- Were mostly former Bowerman runners
- Were not about to let the company fail
- Shared the vision of serving athletes
- Were given difficult tasks and incredible freedom and allowed to fail

Their drive, willingness to learn, and competitive nature allowed Blue Ribbon Sports—and its successor, Nike—to succeed.

3. What role did each of these men play in the early success of Blue Ribbon Sports and Nike: Phil Knight, Bill Bowerman, Jeff Johnson, and Steve Prefontaine?

Phil Knight:

- Came up with the business idea
- Traveled to Japan and secured the distribution rights to Tiger Shoes
- Put up \$500 to start the business
- Was (and still is) the visionary of the company—its long-term strategist
- Handled accounting and finance

Bill Bowerman:

- Also put up \$500 to start the business
- Devoted his time to improving the shoes
- Invented the waffle outsole that transformed the running shoe
- Helped to popularize jogging to the United States
- Wrote a best selling book on jogging
- Inspired those around him to compete and succeed

Jeff Johnson:

- Was one of Nike’s first employees
- Was a former Bowerman runner
- Focused on sales
- Ran the company’s first retail store

Steve Prefontaine:

- Was the best middle-distance runner in the U.S.
- Was a former Bowerman runner
- Wore Nike shoes when he ran and, in promoting Nike products, gave them credibility
- Was killed in a car accident at a young age
- Was, according to Phil Knight, “the cornerstone of this company’s soul”
- Inspired those at Nike to serve exceptional athletes

4. What challenges did Knight and his management team face when the relationship between Blue Ribbon Sports and Onitsuka Tiger ended? How did they overcome these challenges?

A dispute with Onitsuka ended a 10-year working relationship, with Blue Ribbon losing both its distribution rights and its financing. Stranded with only six months inventory, Knight and his team quickly took the following steps:

- Rolled out a new company name (which came to Jeff Johnson in a dream)
- Commissioned a new logo (designed by an art student for \$35)
- Developed a new brand
- Produced new samples to present at trade shows
- Devised a new strategy for convincing athletes to buy the new company’s products

5. Why was the beginning of the jogging and running boom so important to Nike?

- It made consumers health conscious.
- It attracted people of all ages.
- It helped launch an exercise craze and create a huge new market for running shoes (Nike, in other words, was in the right place, at the right time, with the right product).

ABOUT NIKE 2.1: NIKE'S EARLY YEARS

Blue Ribbon Sports: Nike's Predecessor (1964-1971)

Phil Knight and Bill Bowerman were able to build on their coach/athlete relationship and come together in 1964 to start Blue Ribbon Sports, the predecessor of Nike. The purpose of the entrepreneurial effort was to serve the athlete. Satisfying this goal meant listening to athletes, finding out what they wanted, and providing individual attention. Bowerman already practiced the principle while coaching athletes at the University of Oregon, although he never considered himself a coach. Rather he thought of himself as a teacher. He taught runners how to compete. He listened to his athletes and then adapted training programs to help them put their training into practice and constantly sought new ways to help athletes perform at the highest level.

Those who worked with Knight and Bowerman in the early years had a passion for what they were doing. This passion, combined with commitment and focus, motivated them to go out and get things done. The early employees at Blue Ribbon Sports were extremely competitive. Many of Blue Ribbon's first employees were former Bowerman runners who were familiar with his approach to competition. They weren't about to let the company fail, and they shared the vision of serving athletes by making and selling great athletic shoes. They were given difficult tasks and incredible freedom and were allowed to fail. Often they found themselves thrust into unfamiliar territory with little direction. Their drive, willingness to learn, and competitive nature allowed Blue Ribbon Sports, and its successor, Nike, to succeed.

For the first five years (1964-1968), Phil Knight ran Blue Ribbon Sports while working during the day as an accountant for Price Waterhouse. Adhering to the business plan that he'd drawn up as a student at Stanford, Knight imported (from Onitsuka Tiger Company in Japan) reasonably priced running shoes equal in quality to German-made imports. He himself handled the accounting and financing ends of the business and served also as its long-term strategist. A former track rival, Jeff Johnson, focused on sales and ran the company's first retail outlet. Bowerman devoted his time to improving the product. In fact, Bowerman's Cortez shoe, the first running shoe with a soft nylon upper and cushioned sole, became one of Tiger's best selling models (and the shoe of choice for Forrest Gump in the Academy Award-winning movie).

By 1969, the company was successful enough for Knight to quit his day job. Revenues, which were only \$8,000 when the company was started in 1964, had risen to \$300,000.

The firm now had 20 employees. But, as we shall see, the future held many surprises—both challenges and a few unexpected opportunities—for the young company.

Blue Ribbon Becomes Nike (1972-1980)

In 1972, a dispute between Blue Ribbon and Onitsuka Tiger ended their 10-year working relationship. Blue Ribbon lost not only its distribution rights to Tiger shoes, but its financing as well, as the company's local bank lost confidence in Blue Ribbon's ability to go it alone. Stranded with only six months of Tiger inventory, Knight and Bowerman had very little time to come up with a new company name, a new logo, a new brand, and new samples to present at trade shows—not to mention a new strategy for convincing athletes to buy untried new products. The new company name “Nike” (the Greek goddess of victory) came to Jeff Johnson in a dream and the swoosh (designed by an art student for \$35) became the Nike logo.

Coming up with new shoes was another matter altogether. One of the new company's first shoes was an all-leather football/soccer shoe manufactured for Nike in Mexico, where, unfortunately, it had not been tested in cold weather. When the shoe hit American football fields in the middle of winter, the soles cracked in two. Knight left quickly for a buying trip to Japan, Taiwan, and Hong Kong in search of products for the Nike line. Even though he had reservations about the quality of the shoes that he found, he hastily ordered the Nike swoosh slapped on 20,000 pairs. The new Nike brand shoes weren't nearly as good as the ones that Blue Ribbon had been importing, and Knight and Bowerman realized that Nike needed a better product if the company was to survive. So while Knight was busy looking for capital and inventory, Bill Bowerman was in the laboratory, using a waffle iron to make better rubber soles. Not only did Bowerman's determination to design shoes that enhanced athletic performance give Nike a competitive product line of athletic shoes, but his waffle outsole ultimately transformed the running shoe.

Nike also needed financing—a daunting prospect in light of Knight's past failures in getting Oregon banks interested in his company. Fortunately, a Japanese bank with which Nike still has strong ties was willing to offer short-term financing. Even so, cash flow remained a problem in the early years. Nelson Farris, one of Nike's early employees, remembers a time in the early 1970s when he got a written note in his paycheck envelope. He was doing a good job, it said, “but, by the way, do not cash your check right now as we have no money.” Employees who had the financial wherewithal to be patient held on to their checks for months, and, surprisingly, many employees stayed at Nike. Why? By most accounts, they were having fun and they liked what they were doing. They were runners selling better shoes to other runners.

Then the company caught a major break: The jogging and running boom officially began. On a trip to Australia, Bowerman noticed that running along country roads was a popular form of exercising. The technique, which was called “jogging,” was different from anything that Bowerman had seen, and he was amazed at the ability of all sorts of people to “jog” for miles without tiring. Back in the United States, the technique of jogging was still unknown, and Bowerman, convinced of its health benefits, started offering classes that soon attracted people of all ages. He even wrote a best-selling book—*Jogging*—which helped to launch an exercise craze and created a huge new market for running

shoes. Nike found itself in the right place, at the right time, with the right products. It also had the right people—people with the right competitive attitude and intensity.

One of those people was Steve Prefontaine, the best middle-distance runner in the United States (and another former runner of Bill Bowerman). “Pre” wore Nikes when he ran, and when he ran, he was promoting Nike products. Prefontaine was killed in a car accident in 1975, but his presence is still felt at Nike. “To many,” says Phil Knight, “he was the greatest U.S. middle-distance runner ever, but to me he was more than that. Pre was a rebel from a working-class background, a guy full of cockiness and pride and guts. Pre’s spirit is the cornerstone of this company’s soul.”

By 1980, Phil Knight’s graduate-school business idea was a proven success. Nike’s famous air-cushioning technology had changed athletic shoes forever, and the product line had been expanded to include apparel. The small company started 16 years earlier by Knight and Bowerman with a handshake and a combined investment of \$1,000 now enjoyed nearly 50 percent of the U.S. running-shoe market. The company had 2,700 employees, and revenues had grown to \$270 million

ABOUT NIKE 2.2: NIKE’S PHENOMENAL GROWTH

Successes and Challenges, 1980 to the Present

[6.5—About Nike 2.2]

Discussion Questions

1. What type of growth did Nike experience from 1980 to the present in terms of sales? Has Nike’s growth been steady?

- Sales in 1980 were \$270 million.
- By 1990, they had grown to \$2 billion.
- Between 1990 and 1998, they leaped from \$2 billion to \$9.5 billion before growth leveled off.
- Sales rose again in the early 2000s, climbing to \$15 billion by 2006.

Conclusion: Nike sales have climbed, though not always at a steady rate.

2. What do you believe are the three primary reasons that Nike has succeeded? Briefly explain why you selected these reasons.

Student opinions will vary on success factors. Many might give the following as their top reasons:

- Product innovation
- Exciting marketing
- Adhering to the company mission:
Nike adheres to its mission—“To bring inspiration and innovation to every athlete in the world—and, if you have a body, you’re an athlete”—through product innovation and a strong marketing program.

Other possibilities include:

- Being an authentic sports and fitness company

- Maintaining technological supremacy
- Listening to customers
- Developing strong working relationships with retailers
- Becoming a global company
- Admitting mistakes
- Developing financial strength

3. What do you believe are the three biggest challenges that Nike has faced? Briefly explain why you selected these challenges.

Again, student opinions will vary. Many will identify these 3 challenges:

- Responding to criticisms on labor-practice issues—criticism that painted a negative picture of Nike for a number of years
- Learning how to operate without Phil Knight as CEO; he’s been vital to the company since its inception; as chairman of the board, he’s still involved, though his level of involvement has decreased
- Dealing with competition; over the years, many small companies have taken shares of Nike’s market

Others might mention such challenges as:

- Responding to rapid growth
- Changing organizational structure to respond to growth
- Struggling to market products in foreign countries
- Avoiding overexposure of the *swoosh*
- Responding to changes in consumer tastes
- Adapting to an evolving retail environment
- Isolating itself from the ups and downs of global economies
- Overcoming problems with supply chain software

ABOUT NIKE 2.2: NIKE’S PHENOMENAL GROWTH Successes and Challenges, 1980 to the Present

Phenomenal Growth

By 1980, it was clear that Phil Knight’s running-shoe business was destined for success. Sales had risen to \$270 million and the company dominated the U.S. market, surpassing even Adidas, the company that Phil Knight had set out to beat back in 1964. It was time to take the company public—to sell shares of stock as a means of bringing in the capital needed to finance Nike’s rapid growth. Nike shares became available to the public in December 1980.

Although Nike experienced two slow periods (one in the mid-1980s and another in the late 1990s), its overall growth has been phenomenal. Over a relatively short period of time, Nike transformed itself from what was perceived as an edgy, risk-taking underdog into a solid citizen of corporate America. From 1980 to 1990, sales rose from \$270 million to \$2 billion. Sales between 1990 and 1998 leaped from \$2 billion to

\$9.5 billion before growth leveled off. Sales rose again in the early 2000s, rising to \$15 billion in 2006.

Almost 35 years after the Nike brand was introduced, the small, intimate company has become a large corporation with a workforce of more than 26,000 employees worldwide. About 7,000 of these employees work at an expansive 175-acre campus near Beaverton, Oregon, where buildings are named after such sports icons as John McEnroe, Michael Jordan, and Mia Hamm. Employees can take time out from the daily grind with workouts at the spacious Bo Jackson Fitness Center or a swim at the Lance Armstrong Sports and Fitness Center.

Success Factors

As you work your way through your introduction to business and your study of Nike, you should keep asking yourself one question: Why has Nike been successful? Throughout the course, you'll discover a number of things that Nike's done right and that have possibly contributed to its success, including the following:

- Adhering to its mission—namely, “To bring inspiration and innovation to every athlete in the world.” (Who’s an “athlete”? Nike operates on the principle espoused by Bowerman: “If you have a body, you’re an athlete.”)
- Staying focused on being an authentic sports and fitness company serving the athlete and sports-minded people.
- Maintaining technological supremacy in the production of high quality, innovative products designed to enhance athletic performance.
- Listening to its customers and providing them with products that satisfy their needs.
- Establishing a strong brand name through product innovation and exciting advertising campaigns linking Nike with sports and fitness and with such highly visible celebrity athletes as Michael Jordan, Tiger Woods, and Lance Armstrong.
- Developing and maintaining strong working relationships with its retailers.
- Becoming a global company that not only outsources its products from around the world but also sells them in more than 120 countries.
- Being willing to admit mistakes, make corrections, and adapt to a changing environment.
- Possessing the financial strength needed to expand operations.

Challenges

By the same token, Nike’s path to success has not always been smooth. As you continue your study of introduction to business and Nike, you will learn about a number of challenges encountered by Nike:

- Rapid growth has stretched the organization and its people. Especially during the mid-1980s, for instance, the original entrepreneurial team floundered as the company grew. Poor leadership during this period forced the company to lay off more than 20 percent of its workforce. Phil Knight and his top executives needed to learn how to manage a public company.

- As the company became larger and more complex, the internal structure of the organization had to change. Forecasting, planning, and budgeting had to be turned into more formal procedures.
- As the domestic market for footwear matured, Nike increased sales by expanding internationally. Although global expansion was successful and sales grew quickly, Nike initially made the mistake of assuming that foreign markets were just like U.S. markets. They aren't, and Nike had to learn that conducting business in foreign countries was more complicated than its managers had at first expected.
- Nike's famous swoosh became overexposed. Nike had to cut back on its use while still figuring out how to promote its valuable brand.
- Consumer tastes in footwear change frequently, and Nike was slow to react to some of these changes. To remain competitive, it has had to learn to respond quickly to changes in its marketplace.
- Many small sporting-goods stores in the U.S. have been driven out of business by, or merged with, such giant chains as Sports Authority. Nike has had to adapt to the changing landscape of its distribution network.
- Consumers and other interest groups now hold companies responsible for employment practices in the manufacturing facilities that make their products. Many consumers are not only looking for value and quality products, but they're taking closer looks at the characters of the companies that want their business. Nike has had to respond to criticisms from the media and activists groups because of allegations of exploitative labor practices overseas.
- As a company that operates in a global market, Nike is affected by ups and downs in the economies of countries in which it sells its products. Nike's 1998 earnings fell sharply (and a number of employees lost their jobs) because the company failed to anticipate the impact of the downturn in the Asian economy on its overseas sales. Although Nike can't isolate itself completely from global economic conditions, it can take steps to make itself less vulnerable to them.
- In 2000 and 2001, sales of U.S. footwear declined. In addition, Nike faced a surge of competition from several small companies, including New Balance, And 1, and Sketchers. Although sales of U.S. footwear have rebounded somewhat, Nike must continue its efforts to regain its U.S. market share.
- In 2000, the installation of a sophisticated new supply-chain software system for managing orders, manufacturing, and inventory failed miserably. Among other things, it incorrectly shipped shoes to the wrong places and caused Nike to produce millions of pairs of shoes for which it had no orders. To get rid of the excess inventory, Nike had to cut prices and consequently reduce profits. Nike needed to make much better use of its \$400 million dollar supply-chain software system.
- Although Nike has enjoyed considerable success with its advertising campaigns, an occasional blunder or oversight can result in extreme embarrassment to the company. In addition, ads that some people find entertaining offend others. Nike has to find an answer to the question: "How can you remain daring and bold without getting to the point where you start to offend a bunch of people?"

- Phil Knight is stepping down as CEO at Nike, although he'll retain his position as chairman of the board. Nike has to learn how to operate without Knight at its helm.

Conclusion

As Nike's story unfolds, you will learn more about the challenges faced by the company as well as its accomplishments. You will also develop an understanding of what it takes to create and sustain a successful company. You'll appreciate the satisfaction experienced by Phil Knight, a onetime business student who, through the creation of Nike, has become a billionaire by fulfilling his goal of serving the athlete. We hope that in studying Nike, you will not only become excited about business, but will be encouraged to follow in the footsteps of Phil Knight and one day take a chance on a "great business idea."

NIKE VIDEO

Nike's History

[3.5.1—Nike Video]

Description

Nelson Farris, one of Nike's first employees, talks about the early history of Nike. He provides insights into why the young company survived.

In-Class Use

Learning Objective 2: Explain what it takes to start a business and summarize the advantages and disadvantages of business ownership.

You can show the 8-minute video in class and use it to engage students in a discussion of Nike's early history. Streaming videos are available online for student review.

Discussion Questions

1. Let's start with today—what does the *swoosh* mean to you today?

[Note: Although this question wasn't covered in the video, it's a good way to launch the discussion.]

- Innovative products
- Great athletes
- Exciting commercials
- A successful company
- Labor-practice problems
- Pushing high-priced shoes to urban youth

To understand Nike today, let's return to its beginnings and talk about how it was started. Let's begin with the people involved:

2. Who were the company's co-founders and how were they connected?

Co-founders—Phil Knight and Bill Bowerman:

- Knight was a runner at the University of Oregon.
- Bowerman was Knight's coach.

3. What did Bowerman teach his runners?

How to compete; how to win

4. How did Bowerman help his runners win?

He made athletic shoes for them by hand. (Because they were very light, they barely made it through a race in one piece.)

5. How did Knight come up with the idea of Nike?

After graduating from the University of Oregon, Knight got an MBA from Stanford. While at Stanford, he had to write a business plan for a course. His idea was to sell high-quality running shoes (like those made in Germany) at a much cheaper price by having them manufactured in Asia.

6. How did Knight convert his business plan idea into a commercial venture?

After graduating from Stanford, he took a trip to Asia. He found a company in Japan called Onitsuka Tiger, which made Tiger shoes (and which, by the way, still makes shoes under the brand name *Asics*). Claiming to operate an athletic shoe distribution company called Blue Ribbon Sports, Knight convinced Onitsuka to let him distribute Tiger shoes in the U.S.

7. Was it unethical to say that he had a company when he didn't?

Yes.

8. How did Bowerman get into the business?

When Knight returned from Japan, he asked Bowerman to join him in starting Blue Ribbon Sports (Nike's predecessor). Each put up \$500.

9. What value did each bring to the start-up company? Could it have gotten past the first year without both of them?

Knight had the idea (the vision) and a business background. Bowerman knew how to make shoes. Both were needed to launch the company and get it through its first year.

10. Who were Nike's early employees?

Early employees were runners selling to other runners and who had a passion for their work. Nike's first employee, Jeff Johnson, ran the business in the early years while Phil Knight wisely held on to his day job.

Out with Blue Ribbon; in with Nike:

11. What caused Blue Ribbon Sports to end and Nike to begin?

A dispute between Onitsuka Tiger and Blue Ribbon Sports led to a split between the two companies.

12. What did Knight, Bowerman, and others at Blue Ribbon Sports have to do when they split from Onitsuka?

They had to come up with a new company name, logo, and products.

13. How did they do this?

In short order, they devised:

- **A new company name:** *Nike* (after the Greek goddess of victory)—thanks to Jeff Johnson
- **A new logo:** the now-famous *swoosh* (for which an artist was paid \$35)
- **A new product line:** Knight initially bought already made shoes, but they were of poor quality; Bowerman then started designing high-quality shoes.

Getting the new company started:

14. How were they able to get the new company started?

- Bowerman preached competing to win.
- While operating as Blue Ribbon Sports, Knight and Bowerman built a reputation for meeting their obligations and acting with integrity.

15. Who was Steve Prefontaine and why was he important to Nike?

He was an exceptional runner who trained under Bowerman and was the first athlete to wear shoes featuring the Nike *swoosh*. [Note: He was killed in a car accident in his early 20s.]

16. What did Bowerman invent that contributed to Nike's success?

The waffle shoe sole. Recognizing that his runners needed a shoe with greater traction, he made the sole using his wife's waffle iron.

17. What else did Bowerman do (besides creating and improving products) that helped Nike immensely?

He helped to popularize jogging and wrote a book on it.

Now let's pull everything together:

18. Why did Nike succeed?

Here are just a few of the reasons:

a. Shared mission:

Serve the athlete

b. Good combination of people:

- *Knight*: visionary with business background; knew how to lead the company
- *Bowerman*: knew what shoes runners needed; fanatical about light shoes; pushed product innovation; instilled followers with a desire to compete and win
- *Prefontaine*: high-performing middle-distance runner; popular rebel who gave Nike shoes much-needed credibility
- *Johnson*: dedicated, hard-working manager who ran the business for a number of crucial years
- *Early employees*: runners selling to runners; passionate about what they were doing and had fun doing it

c. Critical actions:

- Knight's original trip to Japan
- Bowerman's trip to Australia (where he learned about jogging)
- Bowerman's use of a waffle iron to make new shoe soles

d. Timing (and big break):

- Bowerman learned about jogging (in Australia) and imported it to the U.S.
- Jogging became popular and rode the crest of a fitness craze.
- Nike was in the right place with the right products at the right time.

f. Core values:

- Innovate (always make things better)
- Serve athletes (help them perform better)
- Practice teamwork
- Pursue common goals (work toward the same goal—namely, innovate and make better products)

g. Outcome:

A highly successful brand and company

NIKE MEMO-WRITING ASSIGNMENTS

Description

You can use Nike memo-writing assignments to weave current (and sometimes controversial) Nike topics into the class. These assignments provide students with an opportunity to strengthen their writing skills and form opinions on current issues affecting Nike. Once the memos have been composed, they can be used to underpin in-class discussions or debates. In fact, as an alternative to having students write memos, faculty might ask them merely to research the stipulated topic and to come to class prepared to debate the pertinent issues. The “sample memo” document on p. 70, which has been composed in memo format, is designed to show students how to write a memo.

Suggested In-Class Use

Discuss the “sample memo” document with students prior to assigning them their first memo. Have them refer to this document as they write memos.

SAMPLE MEMO

We’re going to start by doing things in reverse. First, we’re going to show you the format for your Nike writing assignment, and then we’ll tell you what you should write. To understand the *format* for your writing assignment, read the following sample memorandum:

MEMORANDUM

TO: Introduction to Business Students

FROM: Introduction to Business Faculty

DATE: January 25, 2007

RE: Writing Effective Memos

MEMO FORMAT

As a student in this course, you'll be expected to analyze real-world situations, research issues, form opinions, and provide support for the conclusions that you reach. In addition to engaging in classroom discussions of business issues, you'll be asked to complete a number of written assignments. For each of these assignments, we'll give you a business situation and ask you to analyze the issues, form conclusions, and provide support for your opinions.

In each assignment, you'll use the **memo format**, which is the typical form of written communication used in business. Writing in memo format means providing a *complete but concise response* to the issues at hand. Good memo writing demands time and effort. Because the business world expects you to possess this skill, we want to give you an opportunity to learn it now.

Guidelines

Here are a few helpful hints to get you started on the right track:

- **The format should follow the format of this memo.** Note the **guide headings**—"TO," "FROM," "DATE," and "RE." We also include a line across the page to signal the beginning of the body of the memo.
- Keep **paragraphs** short and to the point. The trick is being concise yet complete—summarizing effectively. Paragraphs should be single-spaced, flush against the left margin, and separated by a single line space.
- Accent or highlight **major points**. Use underlining, bullets, or bold type for desired effect (do not to overdo it).
- Use *short headings* to distinguish and highlight vital information. Headings keep things organized, provide structure, and make for smooth reading. Headings (and, as appropriate, subheadings) are an absolute **MUST**.
- Your **title** should reflect the contents of your memo: It should let the reader know why he or she should read it. Keep the title short—a phrase of a few words, not a sentence.
- Be persuasive and convincing in your narrative. You have limited space in which to get your **key points** across. State your positions clearly. And again, be concise (a memo is not a term paper).
- If you have any additional information in the form of **exhibits**—charts, tables, illustrations, and so forth—put them in an **attachment**. Label each item "Exhibit I," "Exhibit II," etc. Give each one a title and be sure to reference them in your narrative ("As shown in Exhibit I, the annual growth rate in sales has dropped from double-digit to single-digit levels").
- Finally, *staple* multiple pages for submission. Needless to say, be sure to proofread for correct spelling and punctuation. Don't scribble in changes by hand: They're sloppy and leave a bad impression.

Final Comment

Now that you've read our memo, we expect you to follow the simple guidelines presented in it. This form of communication is widely practiced in business so take advantage of this opportunity to practice your memo-writing skills.

NIKE MEMO-WRITING ASSIGNMENT

Factors Contributing to Nike's Success

[6.6—Nike Memo-Writing Assignment]

Preparation for the Assignment

This writing assignment solicits your opinion on factors contributing to Nike's success. To complete it, you should review Case Note *About Nike 2.2*, entitled "Nike's Phenomenal Growth: Successes and Challenges, 1980 to the Present."

Memo Format

Use the **Memo Format** for this assignment. Your memo should not exceed two pages. It should be single spaced (with a double space between paragraphs and bulleted items). Use the Sample **Memo** as a guide for spacing.

Scenario

You're one of the fortunate college students selected to participate in Nike's summer internship program. The program is quite competitive, and you still can't believe that you were chosen. You arrived in Beaverton, Oregon, yesterday morning and have been busy ever since. Last night, you attended a dinner for new interns where you were welcomed to Nike by CEO Mark Parker.

You were lucky to be sitting next to a personable, well-informed Nike veteran named Simon Pestrige. Simon joined Nike about twelve years ago. He was telling you about a past assignment he had as Director of Marketing for Australia. (You were impressed with Simon's status at Nike, not just because he doesn't look much older than you, but because you've always wanted to travel to Australia.) The dinner conversation turned to a discussion of the reasons for Nike's success. Others at the table were giving their opinions on the subject when Simon turned to you and said, "As a new intern, give us an outsider's point of view. Why do you think Nike's been so successful?" You were about to venture an opinion when Simon was called away for a phone call. As he got up, however, he quickly said, "Send me a memo telling me what factors you think have contributed to Nike's success. Keep it simple. Three factors are plenty." Although you were relieved to have a little time to think about your answer, you were also a little nervous about the prospect of writing your first official memo.

As everyone else headed for the Bo Jackson gym, you went back to your room to think about Simon's question and to figure out how to go about writing your memo. You want to be sure to start by telling Simon that you enjoyed talking with him. You also need to remind him that you're responding to his question about three factors in Nike's success, and must be sure to explain why you believe they're important. You'll end by saying that you hope the information is helpful and that he can contact you if he has any further questions.

So far, so good, but you're still faced with the toughest part of your task—identifying the three factors that you deem important to Nike's success. Fortunately, even at Nike there's always tomorrow to get something done, so you decide to sleep on it and write your memo in the morning.

ABOUT NIKE: A COUPLE OF FINAL QUESTIONS

Influence of Phil Knight, Bill Bowerman, Jeff Johnson, and Steve Prefontaine

[C5—Comprehensive In-Class Nike Activity]

In this chapter, you read about Nike’s formative years and were introduced to the main characters in the company’s success story: Phil Knight, Bill Bowerman, Jeff Johnson, and Steve Prefontaine. You now know something about the roles played by each of these individuals in the startup and growth of Nike. Supplement this knowledge with further information available on Nike’s Web site at www.nike.com/nikebiz/nikebiz.jhtml?page=5.

After reviewing the material, respond to the following questions:

1. What contribution did each of these men make to Nike’s success?

- Phil Knight and Bill Bowerman each put in \$500 and became partners.
- Knight was (and still is) the visionary of the company.
- Bowerman (Knight’s coach) knew runners and perceived the value of lighter shoes.
- Steve Prefontaine, a great runner, wore Nike shoes (and was probably the first celebrity athlete to promote Nike products).

2. How would Nike be different today without the influence of these individuals?

- Without Knight’s vision, the company might not have survived; if it had, it would probably be smaller (Knight was the most vocal spokesman for growth).
- Without Bowerman’s influence, the product might not be as good, nor may the “athletic” focus have been as strong.
- Without Prefontaine (whom Knight has called “the soul of the company”), Nike might not have appealed so early and so strongly to athletes; he lent the product credibility and helped Nike learn how to serve outstanding athletes.

END-OF-CHAPTER QUESTIONS AND PROBLEMS

- 1. [AACSB—Analysis / 1.1.4—In-Class Activity] 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; (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?**

The following table organizes the attributes that the text uses to describe entrepreneurs in the section entitled “Why Become an Entrepreneur?” Students might set up a table to indicate the extent to which each attribute characterizes *them* or use some other format to summarize the same information.

Attributes of Entrepreneurs	(1) Doesn't sound like me	(2) Sounds like me to a certain extent	(3) Sounds a lot like me
Are creative			
Are passionate about what they're doing			
Are risk-taking optimists			
Work long hours to reach desired goals			
Take pride in what they're doing			
Get satisfaction from doing something they enjoy			
Have flexibility to adjust to changing situations			

The responses to the remaining questions—*Do you think that you have the attributes of an entrepreneur? Do you think you could be a successful entrepreneur? Why or why not?*—will vary by student.

- 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?**

What financial risks should you consider in making your decision?

Students should recognize that the decision to drop out of college, move to California, and start a new business involves considerable financial risk. 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). It will probably require committing most, if not all, of the inherited \$100,000 and could still require going into debt. If things don't go well, the financial loss can be substantial. In addition, there's no guaranteed income, and there might be times, especially in the first few years, when the business doesn't generate sufficient cash to support its owner. These risks should be weighed against the safe path of staying in college and holding onto the \$100,000 for some future purpose.

What are your chances of succeeding with your plan?

Students should mention the high risk of failure for new businesses. One-third of small businesses with employees go under within the first two years, and by the four-year mark, it's up to 55%. Reasons for failure include a bad business idea, cash problems, managerial incompetence or inexperience, lack of customer focus, and inability to handle growth.

Are you willing to take the financial risk needed to start a business? Why or why not?

Answers will vary. Perceiving the financial risk as too great, some students will opt to stay in school. In support of this “safe” option, they might point out that you can have the most brilliant idea, the best marketing approach, and a talented management team, but if you run out of cash, your entrepreneurial career will be short lived. Those who are willing to take the risk and start the business might mention some advantages of becoming an entrepreneur: being your own boss, achieving financial independence, enjoying creative freedom, using your skills and knowledge. They might also mention that entrepreneurs are risk-taking optimists who are willing to commit to long hours to achieve desired goals.

Are you likely to make more money running your own business than working for someone else?

Students should answer yes. Despite high financial risk, running your own business gives you a *chance* to make more money than if you were employed by someone else.

3. [AACSB—Analysis / 2.2.1—In-Class Activity] 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?

How “small” is a small business?

According to the Small Business Administration, 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.

If a substantial portion of small businesses in the United States suddenly closed, what would be the impact on the U.S. economy?

Catastrophic. More than 20 million small businesses in the U.S. generate about 50% of our gross domestic product.

How would all these closings affect workers, consumers, and other businesses?

The effects would be dramatic and negative:

- **Workers:** With more than half of all U.S. adults either self-employed or working for businesses with fewer than 500 employees, job loss would be substantial. Job creation would be reduced significantly, as would opportunities for people (including women and minorities) to achieve financial success.
- **Consumers:** Because 55% of all product innovations come from small businesses, product innovation would suffer significantly.
- **Other Businesses:** With small businesses providing components and services and distributing their products, the economic activity of large organizations would be reduced substantially.

4. **[2.3.2—In-Class Activity] 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?**

Why are most small businesses found in the service-producing sector?

The service-producing sector includes all businesses that provide services but don't make tangible goods. The high concentration of small businesses in the service-producing sector, which accounts for 77% of GDP, reflects the makeup of the overall U.S. economy.

Identify five small service-producing businesses that you patronize frequently.

Answers will vary. Students might cite retail, transportation (for example, airlines), health-care, personal-services (hair dressers, cleaners), communications (cable, DSL, telephone provider), restaurant, entertainment (movie theatres, concerts), and hotel operations.

What kinds of small businesses are found in the goods-producing sector?

Students should exclude businesses requiring tremendous investments in property, plant, and equipment, such as automobile makers. The U.S. goods-producing sector, which accounts for only 23% of GDP, encompasses all businesses that produce tangible goods, including companies involved in manufacturing, construction, and agriculture.

What small goods-producing firms do you do business with regularly?

Again, answers will vary. Students will have trouble identifying small businesses that produce goods. Many manufacturers are large and can't be considered small businesses, and the line between a goods producer and a service provider can be vague. Possibilities include construction companies, local bakeries, florists, companies making customized products such as T-shirts or surfboards, games makers, poster manufacturers, and artists who create pictures or jewelry.

5. **[AACSB—Analysis / 3.1.3—In-Class Activity] 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.**

Students might display answers by means of tables. Selected advantages and disadvantages will vary, as will rankings and the reasons behind them:

Advantages of Small Business Ownership	Ranking	Reason for Ranking
Independence		
Financial rewards		
Lifestyle		
Learning opportunities		
Creative freedom and personal satisfaction		

Disadvantages of Small Business Ownership	Ranking	Reason for Ranking
Financial risk		
Stress		
Time commitment		
Undesirable duties		
Likelihood of failure		

6. [AACSB—Analysis / 6.4—In-Class Activity] **It’s the same old story: You want to start a small business but don’t have much money. Go to www.exploringbusinessonline.com to link to the About.com Web site and read the article “Business on a Budget.” Identify some business 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?**

Select a business opportunity that interests you (from the “Business on a Budget” article), indicate why you chose this opportunity, and state why the business idea interests you.

Answers will vary according to selected businesses.

What would you do to ensure that the business was a success?

Again, answers will vary according to selected businesses, but students will probably mention certain steps for increasing the likelihood of success: knowing your business and the basics of business management, having the proper attitude, getting adequate funding, managing your money and time effectively, knowing how to manage people and compete, satisfying your customers.

If you needed assistance starting up or operating your business, where could you find help, and what type of assistance would be available?

Again, student responses will vary, but answers might reflect the following table:

Source of Help	Type of Assistance Available
Small Business Administration	<ul style="list-style-type: none"> • Assistance in developing a business plan • Advice on starting up a business • Help obtaining financing from lenders and investors • SBA Loan guarantees • Management and technical-services training (through its Web site, online courses, and training programs)
Small Business Development Centers (part of SBA; housed in 1000 colleges around the country)	<ul style="list-style-type: none"> • Assistance with business problems • Free training and technical information on small business management
Service Corps of Retired Executives (SCORE).	<ul style="list-style-type: none"> • One-on-one advice from a team of retired executives who work on a volunteer basis

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.

Evaluate the advantages and disadvantages of business ownership options—starting a business, buying an existing business, or obtaining a franchise.

Student answers should reflect those in the following table:

Ownership Option	Advantages	Disadvantages
Starting a new business	<ul style="list-style-type: none"> • You can start with a clean slate. • You can build the business your way. 	<ul style="list-style-type: none"> • It's your riskiest option. • You have to set up the business yourself (come up with the idea, location, customer base, and employees). • You have to build your own reputation and brand image.
Buying an existing business	<ul style="list-style-type: none"> • You have a proven product, existing customers and suppliers, a known location, and trained employees. • It's easier to predict your future success.. 	<ul style="list-style-type: none"> • It's difficult to determine the appropriate price that you should pay for the business. • The business could have problems that you don't know about (such as disappointed customers or a poor location). • You might inherit employees that you yourself wouldn't have hired. • The previous owner might set up a competing business.
Obtaining a franchise	<ul style="list-style-type: none"> • You get a pre-packaged, ready-to-go business that's proven successful elsewhere. • You get help from franchiser in picking location, starting and operating the business, and advertising. 	<ul style="list-style-type: none"> • There's a high initial investment plus a monthly royalty fee and advertising fees. • You'll have high operating costs. • You must play by the franchiser's rules (so you're not entirely your own boss).

	<ul style="list-style-type: none"> You're able to sell the franchiser's goods or services. You'll benefit from the franchiser's brand recognition. 	<ul style="list-style-type: none"> You must buy your products from the franchiser. Franchisers don't always do what they promise.
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Which option do you find most appealing and why? Describe the business you would probably start.

Responses will vary.

- 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.**

Identify three factors that you believe to be the most critical to business success. Why did you select these factors?

Students will select different factors for different reasons. Critical success factors will probably include three from this group: great business idea, hard work, understanding your business and its industry, knowledge of basics of business management, positive attitude, adequate funding, effective money management, efficient time management, ability to manage people, commitment to satisfying or exceeding customer needs, knowing how to compete in the marketplace.

Identify three factors that you believe to be primarily responsible for business failures, and indicate why you selected these factors.

Again, students will select different factors for different reasons. Factors in failures will probably include three from this group: bad business idea, cash problems, managerial inexperience or incompetence, lack of customer focus, inability to handle growth.

- 9. [AACSB—Analysis / 5.4.1—In-Class Activity] 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:**
- You'll bake the cookies in the kitchen of a friend's apartment.**
 - You'll charge \$1 each or \$10 a dozen.**
 - 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.

Using the business plan format described in this chapter, indicate the section of the business plan into which you'd place the pieces of information given in the above list.

Students might present their information in a chart similar to the one that follows:

Section of Business Plan	Letter	Description of item
1. Executive summary	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.
2. Description of proposed business	l	You'll bake nothing but cookies and target only college students as customers. You'll make cookies in an apartment near campus and deliver them fresh.
3. Industry analysis	k	There are six bakeries within walking distance of the college.
4. Mission statement and core values	c	Your purpose is to make the best cookies on campus and deliver them fresh. You value integrity, consideration of others, and quality.
5. Management plan (management qualifications, organization structure, legal form of organization)	h	You'll hire a president at a salary of \$100 a week
6. Description of goods and/or services	d	Each cookie will have 10 chocolate chips and will be superior to those sold in nearby bakeries and other stores.
7. Development and production of products	a	You'll bake the cookies in the kitchen of a friend's apartment.

8. Marketing (target market, pricing, distribution, promotion)	b, g	You'll charge \$1 each or \$10 a dozen and place ads in the college newspaper.
9. Global issues	i	You can ship cookies anywhere in the United States and in Canada.
10. Financial plan	e, j	You expect sales of \$6,000 for the first year and need \$600 in cash to start the business.

10. [AACSB—Analysis / C1—Comprehensive In-Class Activity] 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:

- **What is the company's business model? What does it do? Where does it do it?**
- **Are you the kind of person the company wants to attract as a franchise partner?**
- **How much would it cost you to buy a franchise? How much total capital would you need?**
- **What kinds of support and services would you receive from the company?**
- **Assuming that you had enough money, would you buy a franchise? Why or why not?**

What is the company's business model? What does it do? Where does it do it?

1-800-GOT-JUNK? was established in 1989 by Vancouver, BC, college student Brian Scudamore, who wanted to earn some money over the summer. His business concept entails picking up unwanted items, recycling those that can be recycled, and disposing of the rest. After three successful summers, he expanded by buying more trucks, hiring student drivers, and marketing his services. Eventually, he franchised his business concept, and his company, which operates in 48 of the top 50 metropolitan areas in North America, now focuses on helping its 160 franchise partners grow.

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

The company looks for individuals who meet the following requirements: motivation to be successful, sales and marketing experience or aptitude in these areas, and leadership and management experience. You should be willing to commit full-time to the venture and be able to start right away.

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

Following are cost estimates: franchise fee for one exclusive territory—\$18,000; each additional territory—\$8,000; marketing package—\$6,000; royalty

rate—8% of revenues. The minimum capital requirement to get a franchise is \$70,000.

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

The company provides training and other assistance that helps franchise partners get started and operate their franchises. It provides a centralized call center where customers can learn about services. It also provides marketing and public relations support.

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

Answers will vary.

☞ As a reward for working hard, take a break and click on the Junk Genie icon on the Web site's home page. Pass it along to your friends.

END-OF-CHAPTER EXERCISES

LEARNING ON THE WEB [AACSB—Analysis / 4.1.2—In-Class Activity]

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, CT, 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 this information, 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?

What do you have to do to get a Subway franchise?

Subway recommends the following three-step process:

1. Research the franchise online and by reviewing brochures distributed by the company; attend seminars or trade shows that promote the franchise; meet local Subway franchise owners.

2. Submit an Application for Additional Information, which requires you to provide personal information about yourself and your spouse, your educational and business background, and financial information and references.
3. Search for an appropriate location for your proposed outlet and apply for any needed financing through lending institutions.

How much would it cost to open a Subway shop?

Estimated total cash ranges from a low of about \$90,000 to a high of about \$225,000, depending on location and size of the outlet. A substantial portion of this cost (\$40,000 to \$100,000) goes to converting rented real estate into a Subway restaurant. Other start-up costs include a \$15,000 franchise fee as well as fees for equipment leasing, security system, and outside signage. Finally, Subway requires that partners have cash on hand to cover three months of operating costs, which range from \$12,000 to \$42,000.

What training and support would you receive from Subway?

Subway provides extensive help, including assistance in leasing, store design, and equipment ordering. It features easy-to-run operations and trains franchise partners to run restaurants efficiently. It also provides them with formulas and procedures for ordering, storing, preparing, and selling Subway products.

What advantages do you see in buying a Subway franchise rather than starting a business from scratch? How about disadvantages?

The advantages over starting a business from scratch include: (1) getting a pre-packaged, ready-to-go business that's proven successful elsewhere; (2) getting help from Subway in picking a location, starting and operating the business, and advertising; (3) ability to sell Subway products and the benefit of brand recognition. Disadvantages include (1) high initial investment; (2) an agreement to buy only Subway ingredients; and (3) the willingness to play by Subway's rules.

CAREER OPPORTUNITIES [C2—Comprehensive In-Class Activity]

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?**

Answers to the following three questions will vary depending on the two entrepreneurs that students select.

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

Answers to the second set of questions will also vary, although you should expect students to include some of the following points in their answers:

What aspects of being an entrepreneur are particularly rewarding?

- Independence
- Financial rewards
- Lifestyle advantages
- Learning opportunities
- Creative freedom and personal satisfaction
- Use of skills and knowledge

What's the downside of being an entrepreneur?

- Financial risk
- Stress
- Time commitment
- Undesirable duties

What challenges do entrepreneurs face?

The biggest risk for any entrepreneur is business failure, which can result from many factors, including a bad business idea, cash problems, managerial inexperience or incompetence, lack of customer focus, or inability to handle growth. The external business environment can also present challenges; for example, a new competitor may enter the market.

Is entrepreneurship for you? Why or why not?

Responses will reflect personal opinions.

ETHICS ANGLE [AACSB—Ethical Awareness / 1.1.2—In-Class Activity]

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 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.

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."

Student responses to both sets of questions will vary. Here are some issues that they might raise in response to the first set:

Does selling term papers over the Internet make business sense? Is it a good business idea?

In assessing whether selling term papers over the Internet is a good business idea, students might ask whether the service gives customers something they want—whether it fills an unmet need. Most will agree that it does.

Could the venture be profitable?

A business venture must do more than satisfy customer needs. To be viable, it should generate a profit and provide a reasonable return for its owners. Although students don't have sufficient financial information to answer this question conclusively, most will probably contend that the venture could be profitable.

Here are some issues that students might raise in response to the second set of questions:

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.

Students ought to conclude that businesses should do more than just make profits and that owners should be concerned about the uses to which their products are put. For example, selling illegal drugs is a business, but most students will agree that sellers should be concerned about the negative affects that drugs have on customers (and the rest of society).

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

Most students will acknowledge that Internet term-paper buyers intend to turn them in as their own work (without referencing sources). Most will recognize

that this stratagem is unethical. This line of reasoning ought to lead them to conclude that the proposed business—which is also unethical—should be shelved.

TEAM-BUILDING SKILLS [AACSB—Teamwork / C3—Comprehensive In-Class Activity]

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 itself 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 first part of this problem asks each student to perform a self-assessment to evaluate whether he or she has the characteristics to be a good team member. After taking the survey, students receive an overall score (plus an interpretation) as well as an analysis of their responses to each question. The second part of the problem requires that the team work together to come up with five things that it can do to increase the likelihood of group success and five things that will jeopardize group success. If the same students work together again as a team, they should be encouraged to keep a copy of the results of this group activity and to refer back to it as they work together on the next activity.

THE GLOBAL VIEW [AACSB—Analysis / C4—Comprehensive In-Class Activity]

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?

Student responses will vary, but they'll probably raise some of the following issues:

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

Students will have varying opinions about MySpace's success but should mention the following:

- Users create and customize their Web pages to provide details about themselves and their interests.
- Users like the opportunity to socialize and communicate with friends and acquaintances, to search out and connect with others who have similar interests, and to grow their circles of friends.
- MySpace encourages artists and musicians to promote themselves and upload music for downloading by users.
- The right idea at the right time, MySpace grew by word of mouth.

- It's now essential to have a presence on MySpace, with many young people giving out MySpace pages rather than phone numbers or e-mail addresses.

Among the challenges faced by MySpace, students will probably include the following:

- Sexual predators and other adults with unsavory motives can use the site to contact young people.
- The system sometimes loads slowly, poorly constructed personal pages can freeze browsers, and features (such as instant messaging) can go down.
- It can be a medium of gossip and other forms of malicious "information" exchange.

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 there?

Answers will vary from country to country. In identifying reasons for success, students will probably cite large populations of young people with Internet access. As for challenges, they'll no doubt mention the same problems faced by U.S. users, particularly accessibility and safety issues.

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

Again, answers will vary from country to country. In identifying reasons to avoid certain countries, they might point to lack of Internet access or the presence of government regulations that would inhibit the use of such a site.

QUICK QUIZZES

QUICK QUIZ 2.1

1. **True/False** Fewer than 30 percent of all U.S. adults are either self-employed or work for businesses with fewer than 500 employees.

False More than *50 percent* of all U.S. adults are either self-employed or work for businesses with fewer than 500 employees.

2. **Multiple Choice** Which of the following is *not* a characteristic of an entrepreneur [*select one*]: (a) takes pride in what he or she is doing; (b) is willing to work very hard; (c) avoids risk; (d) has the flexibility to adjust to changing situations; (e) is creative.

Entrepreneurs are typically *quite willing to take risks*.

3. **Multiple Choice** In which industries would you find a heavy concentration of small businesses [*select one*]: (a) pharmaceutical; (b) veterinary services; (c) florist; (d) cable-TV services; (e) both veterinary services and florist.

There would be a heavy concentration of small businesses in *both the veterinary services and the florist industries*. In contrast, because of the large investments needed to enter them, there would be few small businesses in the pharmaceutical and cable-TV services industries.

4. **Multiple Choice** Which of the following is *not* a criteria used by the SBA in defining a small business: (a) exerts little influence in its industry; (b) has fewer than 300 employees; (c) is independently owned; (d) is independently operated; (e) all of these are criteria used by the SBA in defining a small business.

The only criteria *not* used by the SBA in defining a small business is “fewer than 300 employees.” The SBA considers a business “small” if it has *fewer than 500 employees*.

QUICK QUIZ 2.2

1. **Multiple Choice** Which of the following is an advantage of starting a business [select one]: (a) financial security; (b) avoidance of unpleasant work tasks; (c) opportunity to gain an understanding of all aspects of a business; (d) lower stress level; (e) shorter work week.

As a business owner, you’ll be involved in all aspects of your business. Therefore, you’ll have *an opportunity to gain a thorough understanding of the various business functions*. Starting a business does *not* provide financial security; a person starting a business assumes substantial financial risk. Ownership doesn’t mean you can avoid such unpleasant tasks as firing people. Your stress level will probably go up rather than down, and you’ll probably work more hours rather than fewer.

2. **Multiple Choice** The key to coming up with a great business idea is to [select one]: (a) develop an innovative product or service; (b) create a product that costs little to make; (c) provide a product or service that no one else offers; (d) fill an unmet need; (e) offer a product or service that is similar to others.

The key to coming up with a business idea, and to starting a business, is *filling an unmet consumer need*. You can create an innovative product that’s inexpensive to make, that’s unlike anything else on the market is similar to other products, but if no one needs or wants it, it won’t sell.

3. **Multiple Choice** The executive summary section of a business plan [select one]: (a) is written before other parts of the plan are written; (b) provides detailed information about the company’s management team; (c) comes at the end of the business plan; (d) is the most important part of the business plan; (e) none of these.

The executive summary is *the most important part of the business plan*. It’s the first thing read (though the last thing written), and it provides an overview of the whole plan.

4. **Multiple Choice** Which of the following is *not* an important reason for preparing a business plan [select one]: (a) to persuade investors to invest in your company; (b) to force you to analyze your business concept; (c) to obtain financing from a bank; (d) to use as a yardstick by which you can measure your business’ performance; (e) all of these are reasons for preparing a business plan.

All are reasons to prepare a business plan.

QUICK QUIZ 2.3

1. **True/False** According to the SBA, one-third of small businesses that have employees go out of business within the first two years.

True The failure rate for small businesses is very high: One-third of all businesses that have employees fail within the first two years.

2. **Multiple Choice** Which of the following services are provided to business people by the SBA [*select one*]: (a) business training; (b) individualized advice by a team of retired executives; (c) help in obtaining financing; (d) online business advice; (e) all of these.

All are examples of advice provided to businesspeople by the SBA.

3. **Multiple Choice** To be successful in business, you should [*select one*]: (a) avoid changes; (b) handle all aspects of your business yourself; (c) keep an eye on competitors; (d) become a specialist in one particular area of business; (e) run the business on very limited funds.

To be successful in business, you should *keep an eye on your competitors*; that's how you compete. You should learn to react to change rather than to avoid it and to delegate responsibility rather than to handle everything yourself. You should understand all areas of business, not just one. Finally, to avoid running out of cash, be sure that you have access to adequate funding; don't try to run your business on a shoestring.

4. **Multiple Choice** Which of the following is *not* a reason that many businesses fail [*select one*]: (a) they run into cash flow problems; (b) they grow too rapidly; (c) the owners lack managerial experience; (d) they focus on the customer rather than on their product or service; (e) both over-rapid growth and focus on the customer.

Businesses don't fail because they focus on the customer; *customer-oriented businesses are more likely to succeed*. The other items are all reasons why businesses fail: cash flow problems, inability to handle rapid growth, and lack of managerial experience.