

ENTREPRENEURSHIP

Starting and Operating a Small Business

4th Edition



Steve Mariotti
Caroline Glackin

This page is intentionally left blank.

ENTREPRENEURSHIP:
STARTING & OPERATING
A SMALL BUSINESS

This page is intentionally left blank.

ENTREPRENEURSHIP: **STARTING & OPERATING** **A SMALL BUSINESS**

Fourth Edition

Steve Mariotti • Caroline Glackin

PEARSON

Boston Columbus Indianapolis New York San Francisco Amsterdam
Cape Town Dubai London Madrid Milan Munich Paris Montréal Toronto
Delhi Mexico City São Paulo Sydney Hong Kong Seoul Singapore Taipei Tokyo

Vice President, Business Publishing: Donna Battista
Editor-in-Chief: Stephanie Wall
Acquisitions Editor: Dan Tylman
Program Manager Team Lead: Ashley Santora
Program Manager: Claudia Fernandes
Editorial Assistant: Linda Albelli
Vice President, Product Marketing: Maggie Moylan
Director of Marketing, Digital Services and Products:
Jeanette Koskinas
Executive Product Marketing Manager: Anne Fahlgren
Field Marketing Manager: Lenny Ann Raper
Senior Strategic Marketing Manager: Erin Gardner
Project Manager Team Lead: Judy Leale
Project Manager: Ilene Kahn
Operations Specialist: Diane Peirano
Creative Director: Blair Brown

Senior Art Director: Janet Slowik
Interior and Cover Designer: S4Carlisle Publishing Services
Cover Image: venimo/Fotolia
VP, Director of Digital Strategy & Assessment: Paul Gentile
Manager of Learning Applications: Paul Deluca
Digital Editor: Brian Surette
Digital Studio Manager: Diane Lombardo
Digital Studio Project Manager: Robin Lazrus
Digital Studio Project Manager: Alana Coles
Digital Studio Project Manager: Monique Lawrence
Digital Studio Project Manager: Regina DaSilva
Full-Service Project Management and Composition:
Christian Holdener, S4Carlisle Publishing Services
Printer/Binder: Courier/Kendallville
Cover Printer: Courier/Kendallville
Text Font: New Aster LT Std

Credits and acknowledgments borrowed from other sources and reproduced, with permission, in this textbook appear on the appropriate page within text.

Microsoft and/or its respective suppliers make no representations about the suitability of the information contained in the documents and related graphics published as part of the services for any purpose. All such documents and related graphics are provided “as is” without warranty of any kind. Microsoft and/or its respective suppliers hereby disclaim all warranties and conditions with regard to this information, including all warranties and conditions of merchantability, whether express, implied or statutory, fitness for a particular purpose, title and non-infringement. In no event shall Microsoft and/or its respective suppliers be liable for any special, indirect or consequential damages or any damages whatsoever resulting from loss of use, data or profits, whether in an action of contract, negligence or other tortious action, arising out of or in connection with the use or performance of information available from the services.

The documents and related graphics contained herein could include technical inaccuracies or typographical errors. Changes are periodically added to the information herein. Microsoft and/or its respective suppliers may make improvements and/or changes in the product(s) and/or the program(s) described herein at any time. Partial screen shots may be viewed in full within the software version specified.

Trademarks

Microsoft® Windows®, and Microsoft Office® are registered trademarks of the Microsoft Corporation in the U.S.A. and other countries. This book is not sponsored or endorsed by or affiliated with the Microsoft Corporation.

Copyright © 2016, 2013, 2010 by Pearson Education, Inc. All rights reserved. Manufactured in the United States of America. This publication is protected by Copyright, and permission should be obtained from the publisher prior to any prohibited reproduction, storage in a retrieval system, or transmission in any form or by any means, electronic, mechanical, photocopying, recording, or likewise. For information regarding permissions, request forms and the appropriate contacts within the Pearson Education Global Rights & Permissions department, please visit www.pearsoned.com/permissions/.

Acknowledgements of third party content appear on the appropriate page within the text, which constitutes an extension of this copyright page.

Unless otherwise indicated herein, any third-party trademarks that may appear in this work are the property of their respective owners and any references to third-party trademarks, logos or other trade dress are for demonstrative or descriptive purposes only. Such references are not intended to imply any sponsorship, endorsement, authorization, or promotion of Pearson’s products by the owners of such marks, or any relationship between the owner and Pearson Education, Inc. or its affiliates, authors, licensees or distributors.

Library of Congress Cataloging-in-Publication Data

Mariotti, Steve, 1953-

Entrepreneurship: starting & operating a small business/Steve Mariotti, Caroline Glackin.—Fourth Edition.

pages cm

Includes index.

ISBN 978-0-13-393445-8—ISBN 0-13-393445-4 1. New business enterprises—Management. 2. Entrepreneurship.

I. Glackin, Caroline. II. Title.

HD62.5.M3567 2015

658.1'1—dc23

2014032028

10 9 8 7 6 5 4 3 2 1

PEARSON

ISBN 10: 0-13-393445-4
ISBN 13: 978-0-13-393445-8

Special thanks to Shelby Cullom Davis.
Also thanks to Kathryn Davis, Shelby M. C. Davis,
Kimberly La Manna, Abby Moffat,
and Diana Davis Spencer.

—*Steve Mariotti*

To my children, Elise and Spencer, whose support and love
are essential parts of this book.
To my parents, Howard and Maria Wiedenman,
who truly understood the importance
of education. My love and gratitude.

—*Caroline Glackin*

This page is intentionally left blank.

Brief Contents

UNIT 1 Entrepreneurial Pathways 1	Chapter 9 Cash Flow and Taxes 286
Chapter 1 Entrepreneurs Recognize Opportunities 2	Chapter 10 Financing Strategy & Tactics 316
Chapter 2 The Business Plan: Road Map to Success 34	Unit 3 Show Me the Money: Finding, Securing, and Managing It—Lee’s Ice Cream 346
Honest Tea Business Plan 65	UNIT 4 Operating a Small Business Effectively 351
Chapter 3 Creating Business from Opportunity 92	Chapter 11 Addressing Legal Issues and Managing Risk 352
Unit 1 Entrepreneurial Pathways: SPANX—Idea to Entrepreneurial Opportunity 123	Chapter 12 Operating for Success 384
UNIT 2 Integrated Marketing 127	Chapter 13 Management, Leadership, & Ethical Practices 416
Chapter 4 Exploring Your Market 128	Unit 4 Operating a Small Business Effectively: ONLC Training Centers—Virtual IT Training in a Classroom 453
Chapter 5 Developing the Right Marketing Mix and Plan 156	UNIT 5 Cashing in the Brand 457
Chapter 6 Smart Selling and Effective Customer Service 196	Chapter 14 Franchising, Licensing, and Harvesting: Cashing in Your Brand 458
Unit 2 Integrated Marketing: Kitchen Arts & Letters, Inc.—An Independent Bookstore Defies Industry Odds 219	Unit 5 Cashing in the Brand: Honest Tea—From Start-Up to Harvest 477
UNIT 3 Show Me the Money: Finding, Securing, and Managing It 223	Appendix 1 Sample Student Business Plan 483
Chapter 7 Understanding and Managing Start-Up, Fixed, and Variable Costs 224	Appendix 2 BizBuilder Business Plan 511
Chapter 8 Using Financial Statements to Guide a Business 250	Appendix 3 Resources for Entrepreneurs 519
	Appendix 4 Useful Formulas and Equations 525
	Glossary 527
	Index 533

This page is intentionally left blank.

Contents

UNIT 1 Entrepreneurial Pathways 1

Chapter 1 Entrepreneurs Recognize Opportunities 2

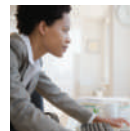


Entrepreneurship	3
What Is an Entrepreneur?	3
The Free-Enterprise System	4
Voluntary Exchange	5
Benefits and Challenges of Free Enterprise	5
What Is a Small Business?	6
Definitions of Success—Monetary and Other	6
Taking the Long View	7
Benefits and Costs of Becoming an Entrepreneur	7
Potential Benefits of Entrepreneurship	8
Potential Costs of Entrepreneurship	9
Cost/Benefit Analysis	10
Opportunity Cost	11
Seeking Advice and Information to Succeed	11
Entrepreneurial Options	13
How Do Entrepreneurs Find Opportunities to Start New Businesses?	15
Entrepreneurs Creatively Exploit Changes in Our World	15
Where Others See Problems, Entrepreneurs Recognize Opportunities	16
Train Your Mind to Recognize Business Opportunities	16
Entrepreneurs Use Their Imaginations	17
An Idea Is Not Necessarily an Opportunity	17
Opportunity Is Situational	18
The Five Roots of Opportunity in the Marketplace	18
Integrating Internal and External Opportunities	18
Establishing Strategies	19
Paths to Small Business Ownership	20
Securing Franchise Rights	21
Buying an Existing Business	21
Licensing Technology	21
The Many Faces of Entrepreneurship	22

Making the Business Work Personally and Professionally 23

A Business Must Make a Profit to Stay in Business	23
Profit Is the Sign That the Entrepreneur Is Adding Value	23
Profit Results from the Entrepreneur's Choices	23
Seven Rules for Building a Successful Business	24
The Team Approach	24

Chapter 2 The Business Plan: Road Map to Success 34



Feasibility Analysis: Does My Idea Work?	36
Analyzing Product and/or Service Feasibility	36
Analyzing Market and Industry Feasibility	37
Analyzing Financial Feasibility	39
Creating a Business Model Canvas	40
What Is a Business Plan?	43
Why Do You Need a Business Plan?	44
Writing a Business Plan Early Will Save You Time and Money	44
Your Business Plan Is the Key to Raising Capital	45
The Business Plan Is an Operations Guide	45
Business Plan Components	45
Cover Page and Table of Contents	46
Executive Summary: A Snapshot of Your Business	46
Mission and Culture: Your Dreams for the Organization	47
Company Description—Background and Track Record	48
Opportunity Analysis and Research—Testing Ideas	48
Marketing Strategy and Plan: Reaching Customers	49
Management and Operations: Making the Plan Happen	50
Financial Analysis and Projections: Translating Action into Money	51
Funding Request and Exit Strategy: The Ask and the Return	55
Appendices: Making the Case in Greater Detail	56

Business Plan Suggestions 56
 Presenting Your Business Plan 57
 Business Plan and Venture Competitions 59
Honest Tea Business Plan 65

Chapter 3



Creating Business from Opportunity 92
 Apple and the Personal Computer 93
 Business Definition 94
 What Sort of Organization Do You Want? 95
 Your Company's Core Values 95
 Your Company's Mission Is to Satisfy Customers 96
 Your Company's Vision Is the Broader Perspective 97
 Your Company's Culture Defines the Work Environment 97
 The Decision Process 98
 Your Competitive Advantage 99
 Find Your Competitive Advantage by Determining What Consumers Need and Want 100
 You Have Unique Knowledge of Your Market 100
 The Six Factors of Competitive Advantage 101
 Is Your Competitive Advantage Strong Enough? 101
 Checking Out the Competition 102
 The Most Chocolate Cake Company 103
 Competitive Strategy: Business Definition and Competitive Advantage 105
 Feasibility Revisited: The Economics of One Unit as a Litmus Test 106
 Defining the Unit of Sale 107
 Cost of Goods Sold and Gross Profit 107
 Your Business and the Economics of One Unit 108
 The Cost of Direct Labor in the EOU—An Example 110
 Hiring Others to Make the Unit of Sale 110
 Going for Volume 111
 Determining the Value of a Business 113
 Asset Valuation Method 113
 Earnings Valuation Method 113
 Cash Flow Valuation Method 114

Unit 1 Entrepreneurial Pathways: SPANX—Idea to Entrepreneurial Opportunity 123

UNIT 2 Integrated Marketing 127

Chapter 4



Exploring Your Market 128
 Markets and Marketing Defined 130
 A Business That Markets versus a Market-Driven Business 130
 Research Prepares You for Success 130
 Research Your Market *Before* You Open Your Business 130
 Types and Methods of Research 131
 Getting Information Directly from the Source: Primary Research 131
 Getting Information Indirectly: Secondary Research 133
 Research Helps You Know Your Customer 135
 Customer Research 135
 Industry Research: The 50,000-Foot Perspective 137
 Make Research an Integral Part of Your Business 138
 How Customers Decide to Buy 139
 Owning a Perception in the Customer's Mind 140
 Features Create Benefits 140
 Home Depot: Teaching Customers So They Will Return 141
 Which Segment of the Market Will You Target? 141
 Successful Segmenting: The Body Shop 142
 Applying Market Segmentation Methods 142
 The Product Life Cycle 144
 Is Your Market Saturated? 146
 Market Positioning: Drive Home Your Competitive Advantage 146
 Developing a Marketing Plan 147
Chapter 5 Developing the Right Marketing Mix and Plan 156
 The Four Marketing Factors 157
 Product: What Are You Selling? 158
 Create Your Total Product or Service Concept 158
 Focus Your Brand 159
 Ford's Costly Failure: The Edsel 159

Chapter 5



Ford's Focus on Success: The Mustang	160
How to Build Your Brand	160
Price: What It Says about Your Product	162
Strategies and Tactics for Effective Pricing	162
Place: Location, Location, Location!	164
Key Factors in Deciding on a Location	165
Promotion: Advertising + Publicity	165
Use Integrated Marketing Communications for Success	165
Reinforce the Company's Unique Selling Proposition	166
Promotional Planning	167
Determine a Promotional Budget	167
The Advertising Advantage	169
Types of Advertising	170
Media Planning and Buying: Focus on Your Customer	170
Marketing Materials Should Reinforce Your Competitive Advantage	171
Sales-Promotion Solutions	172
When to Use Promotional Tools	172
Advertising Specialties	172
Trade Show Exhibits	172
Mall Carts or Kiosks	173
Alternative Marketing	174
Other Media Venues	175
E-Active Marketing	175
Publicity Potential	179
Generating Publicity	179
Telling the Story	179
Sample Press Release	180
Follow Up a Press Release	180
Public Relations	180
The Fifth P: Philanthropy	182
Cause-Related Marketing	182
Gaining Goodwill	183
Not-for-Profit Organizations	183
What Entrepreneurs Have Built	184
You Have Something to Contribute	184
Developing a Marketing Plan	184
Marketing Analysis	185
Marketing as a Fixed Cost	185
Calculate Your Breakeven Point	186

Chapter 6



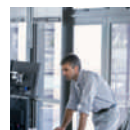
Smart Selling and Effective Customer Service 196

Selling Skills Are Essential to Business Success	197
Selling Is a Great Source of Market Research	198
The Essence of Selling Is Teaching	198
The Principles of Selling	198
The Sales Call	200
Electronic Mail, Blogs, and Social Networks	200
Prequalify Your Sales Calls	201
Focus on the Customer	201
The Eight-Step Sales Call	202
Three Call Behaviors of Successful Salespeople	203
Analyze Your Sales Calls to Become a Star Salesperson	204
Turning Objections into Advantages	204
Use Technology to Sell	205
Successful Businesses Need Customers Who Return	206
Customer Service Is Keeping Customers Happy	206
The Costs of Losing a Customer	206
Customer Complaints Are Valuable	207
Customer Relationship Management Systems	208
Why Does CRM Matter?	209
Components of CRM for the Small Business	210
How Technology Supports CRM	211

Unit 2 Integrated Marketing: Kitchen Arts & Letters, Inc.—An Independent Bookstore Defies Industry Odds 219

UNIT 3 Show Me the Money: Finding, Securing, and Managing It 223

Chapter 7



Understanding and Managing Start-Up, Fixed, and Variable Costs 224

What Does It Cost to Operate a Business?	225
Start-Up Investment	226
Brainstorm to Avoid Start-Up Surprises	226
Keep a Reserve Equal to One-Half the Start-Up Investment	227
Predict the Payback Period	228
Estimate Value	229

Fixed and Variable Costs: Essential Building Blocks 230

Calculating Critical Costs 230

Calculating Total Gross Profit (Contribution Margin) 231

Calculating EOU When You Sell Multiple Products 231

Fixed Operating Costs 233

Fixed Operating Costs Do Change Over Time 233

Allocate Fixed Operating Costs Where Possible 234

The Dangers of Fixed Costs 235

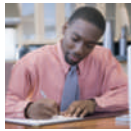
Using Accounting Records to Track Fixed and Variable Costs 235

Three Reasons to Keep Good Records Every Day 236

Cash versus Accrual Accounting Methods 238

Recognizing Categories of Costs 239

Chapter 8 Using Financial Statements to Guide a Business 250



Scorecards for the Entrepreneur: What Do Financial Statements Show? 251

Income Statements: Showing Profit and Loss Over Time 252

Parts of an Income Statement 252

A Basic Income Statement 253

The Double Bottom Line 253

An Income Statement for a More Complex Business 254

The Balance Sheet: A Snapshot of Assets, Liabilities, and Equity at a Point in Time 256

Short- and Long-Term Assets 257

Current and Long-Term Liabilities 258

The Balance Sheet Equation 258

The Balance Sheet Shows Assets and Liabilities Obtained through Financing 258

The Balance Sheet Shows How a Business Is Financed 259

Analyzing a Balance Sheet 260

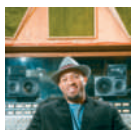
Depreciation 262

Financial Ratio Analysis: What Is It and What Does It Mean to You? 262

Income Statement Ratios 262

Balance-Sheet Analysis 265

Chapter 9 Cash Flow and Taxes 286



Cash Flow: The Lifeblood of a Business 287

The Income Statement Does Not Show Available Cash 288

Rules to Keep Cash Flowing 289

Noncash Expenses Can Distort the Financial Picture 289

The Working Capital Cycle 289

The Cyclical and Seasonal Nature of Cash Flow 290

Reading a Cash Flow Statement 292

The Cash Flow Equation 292

Forecasting Cash Flow: The Cash Budget 292

Creating a Healthy Cash Flow 293

Managing Inventory to Manage Cash 295

Managing Receivables to Manage Cash 297

The Cash Effects of Accounts Receivable 297

The Life Cycle of Accounts Receivable 297

The Financing of Accounts Receivable 298

Managing Accounts Payable to Manage Cash 299

Negotiating Payment 299

Timing Payables 299

Capital Budgeting and Cash Flow 300

The Burn Rate 301

The Value of Money Changes Over Time 301

The Future Value of Money 301

The Present Value of Money 303

Taxes 304

Cash Flow and Taxes 304

Filing Tax Returns 304

Collecting Sales Tax 305

Tax Issues for Different Legal Structures 305

Make Tax Time Easier by Keeping Good Records 306

Chapter 10 Financing Strategy & Tactics 316



Going It Alone Versus Securing Financing 317

How Often Do Small Businesses Really Fail? 318

What Is the Best Type of Financing for You and Your Business? 318

Gifts and Grants 319

Debt Financing 320

Debt Financing: Pros and Cons 320

Equity Financing 322

Equity Financing: Pros and Cons 323

Where and How to Find Capital That Works for You 324	
Having an Excellent Business Plan Goes a Long Way 324	
How Capital Sources Read Your Business Plan 324	
Family and Friends 324	
Financial Institutions and Dimensions of Credit 324	
Community Development Financial Institutions (CDFIs) 328	
Venture Capitalists 329	
Angels 330	
Insurance Companies 331	
Vendor Financing 331	
Federally Supported Investment Companies 331	
Financing for Rural/Agricultural Businesses 332	
Self-Funding: Bootstrap Financing 332	
Accessing Sources Through Online Networking 332	
Investors Want Their Money to Grow: Can You Make It Happen? 333	
How Stocks Work 334	
How Bonds Work 335	
Unit 3 Show Me the Money: Finding, Securing, and Managing It—Lee’s Ice Cream 346	
UNIT 4 Operating a Small Business Effectively 351	
Chapter 11 Addressing Legal Issues and Managing Risk 352	
	
Business Legal Structures 353	
Sole Proprietorship 353	
Partnership 355	
Corporation 356	
Tips for Entrepreneurs Who Want to Start a Nonprofit Organization 358	
Contracts: The Building Blocks of Business 361	
Working with an Attorney 361	
Drafting a Contract 362	
Letter of Agreement 363	
Breach of Contract 363	
Small Claims Court 363	
Arbitration 363	
A Contract Is No Substitute for Trust 363	
The Uniform Commercial Code (UCC) 364	
The Law of Agency 364	
Bankruptcy 365	
Protecting Intangible Assets: Intellectual Property 367	
Trademarks and Service Marks 367	
Copyright 369	
Electronic Rights 369	
Patents 370	
Protecting Tangible Assets: Risk Management 371	
Insurance Protects Your Business from Disaster 371	
Basic Coverage for Small Business 371	
How Insurance Companies Make Money 372	
Protect Your Computer and Data 373	
Disaster Recovery Plans 373	
Licenses, Permits, and Certificates 374	
Chapter 12 Operating for Success 384	
	
Operations Permit Businesses to Deliver on Their Promises 386	
The Production-Distribution Chain 386	
Supply Chain Management 387	
Finding Suppliers 388	
Managing Inventory 388	
Facilities, Location and Design 390	
Key Factors in Deciding on a Location 391	
Facilities Design and Layout 394	
Special Considerations for Home-Based Businesses 398	
Special Considerations for Web-Based Businesses 398	
Defining Quality: It Is a Matter of Market Positioning 399	
Profits Follow Quality 399	
Organization-Wide Quality Initiatives 400	
Benchmarking 400	
ISO 9000 401	
Six Sigma 402	
Total Quality Management 402	
Malcolm Baldrige Award 402	
Using Technology to Your Advantage 403	
Computer Access Is Essential 403	
Capture the Potential of the Telephone 404	
Identify Market-Specific Software and Technology 404	
Electronic Storefront (Web Site) 405	

Chapter 13 Management, Leadership, & Ethical Practices 416



- The Entrepreneur as Leader 417
 - Leadership Styles That Work 417
 - How Entrepreneurs Pay Themselves 418
 - Manage Your Time Wisely 419
- Business Management: Building a Team 420
 - What Do Managers Do? 421
- Adding Employees to Your Business 421
 - Growing Your Team 427
 - Creating and Managing Organizational Culture 428
 - Determining Organizational Structure 428
 - Getting the Best Out of Your Employees 430
- Human Resources Fundamentals 430
 - Performance Management 432
 - Firing and Laying Off Employees 434
- Ethical Leadership and Ethical Organizations 434
 - An Ethical Perspective 435
 - Establishing Ethical Standards 435
 - Corporate Ethical Scandals 436
 - Doing the Right Thing in Addition to Doing Things Right 438
 - Balancing the Needs of Owners, Customers, and Employees 438
- Social Responsibility and Ethics 438
 - Leading with Integrity and Examples 439
 - Encourage Your Employees to Be Socially Responsible 439

Unit 4 Operating a Small Business Effectively: ONLC Training Centers—Virtual IT Training in a Classroom 453

UNIT 5 Cashing in the Brand 457

Chapter 14 Franchising, Licensing, and Harvesting: Cashing in Your Brand 458



- What Do You Want from Your Business? 459
 - Continuing the Business for the Family 460
 - Growth through Diversification 460
- Growth through Licensing and Franchising 461
 - Focus Your Brand 461
 - When Licensing Can Be Effective 461
 - Franchising Revisited from the Franchisor Perspective 462
 - How a McDonald's Franchise Works 462
 - Do Your Research before You Franchise 463
- Harvesting and Exiting Options 463
 - When to Harvest Your Business 463
 - How to Value a Business 464
 - The Science of Valuation 465
- Creating Wealth by Selling a Profitable Business 465
 - Harvesting Options 466
- Exit Strategy Options 468
 - Investors Will Care about Your Exit Strategy 469

Unit 5 Cashing in the Brand: Honest Tea—From Start-Up to Harvest 477

- Appendix 1 Sample Student Business Plan 483
- Appendix 2 BizBuilder Business Plan 511
- Appendix 3 Resources for Entrepreneurs 519
- Appendix 4 Useful Formulas and Equations 525
- Glossary 527
- Index 533

Preface

Helping Students Own Their Future

Entrepreneurship: Starting and Operating a Small Business (ESOSB), Fourth Edition, is the newest edition in a line of entrepreneurship textbooks written by Steve Mariotti, founder of the Network for Teaching Entrepreneurship (NFTE). Once again, it is written with professor and entrepreneur Caroline Glackin, and it promotes entrepreneurship as a career option for college students.

Business students, as well as those from other disciplines, can benefit from *ESOSB*. For business students, it recasts their prior learning from a typical corporate context and focuses it on small and entrepreneurial enterprises. For students in such fields as hospitality, the arts, engineering, and fashion merchandising, the text introduces key business concepts and provides examples from a broad range of careers. Cases from hospitality, technology, retail, manufacturing, distribution, real estate, finance, and not-for-profit organizations bring a wealth of learning opportunities. Most importantly, *ESOSB 4e* is a balanced mix of the academic and applied components of entrepreneurship education. Students are introduced to the theories, methods, and knowledge and skills required of entrepreneurs and are immediately given practical examples and discussion opportunities. Using the Application Exercises and Exploring Online features at the end of each chapter, they are encouraged to take this new knowledge and apply it in their own lives, so that the course materials are reinforced and internalized.

Highlights of New Content and Changes

Entrepreneurship: Starting and Operating a Small Business, Fourth Edition, contains new content and some changes, including the following:

- Three new Chapter Openers include Mercedes, University Parent, and inDinero.
- Nine new short End-of-Chapter Case Studies: Urban Decay, Gat Creek Furniture, Gentle Rest Slumber, Dr. Farrah Gray, Happy Belly Curbside Kitchen, BNI, Gelato Fiasco, The Bun Company, and Anago Cleaning Systems.
- Seven new longer End-of-Chapter Case Studies: Foursquare, Empact, Amazon.com, Damon White Party Promotions, Airbnb, AYZH, and iContact.
- All new Unit Cases. These are more interesting and relatable for students and include: Spanx, Kitchen Arts & Letters, Inc., Lee's Ice Cream, ONLC Training Centers, and Honest Tea.
- Step into the Shoes, Entrepreneurial Wisdom, BizFacts, and Global Impact Features. These have been updated and expanded with 16 new featured items, including 12 Step into the Shoes and 4 Global Impact Features. Among the newly featured people and organizations are: Indeed.com, In-N-Out Burgers, Sweet dis(Solve), Twitter, ContextMedia, Mental Floss, Zhang Xin, P'Kolino, Jack Threads,

Rent the Runway, Tom's, Vostu, American Public University, and TechWorld These features connect chapter content to business facts and examples to reinforce learning.

- **Honest Tea Featured Business Plan.** From its early stage funding search, this example provides students with an interesting start-up plan for a company that is also featured in the Unit 5 case. This bookends the contents of the text.
- **Business Model Canvas.** The Osterwalder and Pigneur Business Model Canvas is introduced in Chapter 2 with the example of the University Parent Business Plan that is included in Appendix 1. Students are encouraged to develop a business model and to explore the Lean Startup process.
- **BizBuilder Business Plan Questions.** These have been modified to clarify the work and connect the content to student work using the business plan templates.
- **Chapter Learning Objectives.** The objectives have been revised to conform more fully to the categories of knowledge acquisition, comprehension, application, analysis, synthesis, and evaluation commonly assessed in higher education.

Combining Street Smarts and Academic Smarts

Entrepreneurship: Starting and Operating a Small Business, Fourth Edition, is an extension of the academic programs developed by Steve Mariotti under the auspices of NFTE. Since 1987, NFTE has reached over 500,000 graduates and trained more than 5,000 teachers in 15 countries to impart its innovative entrepreneurship curriculum through its 17 U.S. sites and 8 international program partners. NFTE is widely viewed as a world leader in promoting entrepreneurial literacy and has a proven track record of helping young people start a great variety of successful ventures.

This textbook unites Steve Mariotti's experience with relevant academic theory and practice, supported by a rich variety of examples and stories. Caroline Glackin brings years of experience in the university classroom, as a lender to small and microbusinesses, and as an entrepreneur and small business owner. Together, these two authors have produced a text that is practical, useful, and academically strong.

Organization

Entrepreneurship: Starting and Operating a Small Business, Fourth Edition, is organized to follow the life cycle of an entrepreneurial venture from concept through implementation into harvesting or replication. It is a comprehensive text written in light of the reality that college students often take only one course in entrepreneurship and the topic is covered in a multitude of ways. For instructors who will teach the course as a "business plan," *ESOSB 4e* offers step-by-step content to build a plan over a semester or a quarter. For those who focus on the management of small and entrepreneurial ventures, there is an abundance of high-quality material on the critical topics of management, human resources, marketing, and operations for such ventures. For those charged with teaching a comprehensive introductory course, all of the components are provided.

Chapter Learning System

Chapter Openers Set the Stage

Each chapter starts with an inspirational quote, an introduction, and Learning Objectives that provide a “road map” so readers know where they are headed. Readers connect with a story of a real business in the opening vignette that sets the stage for upcoming material.

1

Entrepreneurs Recognize Opportunities

Learning Objectives

1. Summarize what entrepreneurs do.
2. Examine how free-enterprise economies work and how entrepreneurs fit into them.
3. Identify and evaluate opportunities to start your own business.
4. Explain how profit works as a signal to the entrepreneur.



Tom Skaly, TerraCycle

“Everyone lives by selling something.”
—Robert Louis Stevenson, Scottish author

Entrepreneurship
Have you ever eaten a Subway sandwich? Used an Apple device? Listened to music with Skullcandy headphones? The entrepreneurs that founded these companies brought these products into your world. Entrepreneurship is all around us.

What is an Entrepreneur?
Most Americans earn money by working in business. They are somehow engaged in the buying and selling of products or services in order to earn money.

- A product is something that exists in nature or is made by human beings. It is tangible, meaning that it can be physically touched.
- A service is labor or expertise exchanged for money. It is intangible. It cannot physically be touched.

Someone who earns a living by working directly for someone else's business is an *employee* of that business. There are many roles for employees. At Ford Motor Company, for instance, some employees build the cars, some sell the cars, and some manage the company. But most employees have one thing in common—they do not own the business; they work for others who do. They know how much money they can earn, and that amount is limited to salary or wages, plus bonuses and any stock options they may receive.

People who have their own businesses work for themselves and are called *small business owners*, or *entrepreneurs*. Entrepreneurs are often both owners and employees. For an entrepreneur, the sky is the limit as far as earnings are concerned. Unlike an employee, an entrepreneur owns

product something tangible that exists in nature or is made by people.

service intangible work that provides time, skills, or expertise in exchange for money.

entrepreneur a person who recognizes an opportunity and organizes and manages a business, assuming the risk for the sake of potential return.

“Step into the Shoes” of the Experts

Step into the Shoes features appear in each chapter and offer insight into the business practices of entrepreneurs and an opportunity to discuss the brief example. It brings the content to life with real-world application.

Step into the Shoes . . .


Russell Simmons Makes Rap Happen

In the late 1980s, Russell Simmons was promoting rap concerts at the City University of New York. At the time, rap was considered a passing fad, but Simmons was passionate about it. Even though most record executives thought rap would be over in a year or two, Simmons believed it was a business opportunity. He formed Def Jam Records with fellow student Rick Rubin for \$5,000. Within a year, they produced hit records by Run DMC and LL Cool J, and Simmons went on to become a multimedia mogul.

Simmons took a chance on this opportunity because he felt that, if you personally know 10 people who are eager to buy your product or service, 10 million would be willing to buy it if they knew about it. He was right about rap's popular potential,

perceived opportunities: You may be passionate about something, but there may not be enough consumer interest to sustain an actual business venture.

Simmons loved rap and hoped other people would, too. That was the internal factor—he had the passion to sustain himself as he worked relentlessly to make his dream come true. As it turned out, music fans at that time were looking for a fresh sound. Rap filled the bill. This was an external opportunity that coincided with Simmons's



BizFacts

BizFacts impart useful information regarding entrepreneurship statistics, company practices, or business applications.

BizFacts

- There are 27.3 million businesses in the United States; approximately 99.9 percent of them are small companies with fewer than 500 employees.
- Small businesses in America employed 49.2 percent of the country's private (nongovernment) workforce, hired 43 percent of high-tech workers, and created 64 percent of net new jobs annually over the last decade.
- Home-based businesses make up 52 percent and franchises 2 percent of all small firms.
- Small businesses represent 99.7 percent of all companies with employees.
- Small firms constituted 98 percent of all identified exporters and produced 33 percent of the country's known export value in fiscal year 2010.

Source: U.S. Small Business Administration, accessed March 9, 2014, <http://www.sba.gov>.

Entrepreneurial Wisdom

Entrepreneurial Wisdom contains insights or advice that will help students in the preparation of a business plan or management of an enterprise.

Entrepreneurial Wisdom . . .

A useful way to evaluate a business idea is to look at its strengths, weaknesses, opportunities, and threats (SWOT). This is called SWOT analysis.

- **Strengths**—All the capabilities and positive points the company has, from experience to contacts. These are internal to the organization.
- **Weaknesses**—All the negatives the company faces, such as lack of capital or training or failure to set up a

workable accounting system. These are internal to the organization.

- **Opportunities**—Any positive external events or circumstances that can help the entrepreneur get ahead of the competition.
- **Threats**—Any external factors, events, or circumstances that can harm the business, such as competitors, legal issues, or declining economies.

Global Impact

Global Impact, featured in each chapter, provides examples of entrepreneurial ventures around the world or information that can be applied in global trade.

Global Impact . . .

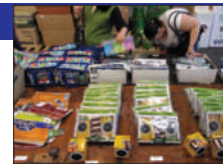
Upcycling Waste Internationally—TerraCycle, Inc.

In 2003, John Szaky's TerraCycle won a business plan contest from Carrot Capital for \$1 million in seed funding. But the venture capital firm wanted TerraCycle to drop its environmental focus, and Szaky turned down the offer. It was a critical decision that later helped the business achieve its competitive advantage.

TerraCycle converts nonrecyclable packaging waste to upcycled products. An early inspiration was implemented when TerraCycle ran out of money to buy bottles in which to sell fertilizer derived from worm waste. It was decided to

a few examples of the more than one hundred TerraCycle products sold in large retail chains, including Home Depot, Whole Foods, Wal-Mart, and Target. The concept has spread to the United Kingdom, Brazil, Mexico, Israel, and Canada, among others.

By working with concerned groups in each country, TerraCycle has the potential of becoming an iconic representative of up-



Wu Kaixiang/Corbis Images

Honest Tea Business Plan

This is the plan developed by founders Seth Goldman and Barry Nalebuff during Honest Tea's first year of operations. It appears following Chapter 2 and includes a comprehensive market analysis and detailed historical financials. The business raised over \$1 million at a time when sales were less than \$250,000 and the company had operating losses. The Honest Tea plan is an excellent example for students and one that many of them will understand, to some extent, as customers of bottled tea.



Business Plan for 1999
December 1998
4905 Del Ray Avenue, Suite 304
Bethesda, Maryland 20814
Phone: 301-652-3556
Fax: 301-652-3557

E-mail: sethandbary@honesttea.com

Table of Contents

Mission Statement	70
Executive Summary	71
Company Story	71
The Product	72
The Taste	72
Low in Calories	72
Health Benefits of Brewed Tea	73
Cultural Experience of Tea	73
Flagship Line of Flavors	74
Production and Manufacturing	74
Market Opportunity	75
Beyond Snapple—The Emerging Market for Quality Bottled Tea	75
Profile of Target Customer	76
Market Research	77
Market Response	77
Marketing and Distribution	79
National Natural/Specialty Foods Channels	80
High-End Food Service	80
Promotion	80
Packaging and Pricing	80
International Markets	81
Product Development and Future Products	81
Management	81
President & CEO	81
Chairman of the Board	82
Brewmaster	82
National Sales Director	82
Retail Sales Manager	82
Consultants and Advisors	82
Statement and Aspirations for Social Responsibility	83
Financial Statements—Year-to-Date and Projections	90
The Offering	90
Financing History	90
Exit Strategies	90
Investment Risks	90
Competitive Advantage	90
A Parting Thought	91

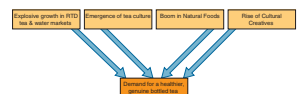
Our tea leaves are provided by internationally known companies that specialize in tea buying, blending and importation. Our primary source is Hilsen & Lyon of Germany, the largest specialty tea company in the world. Another, Assam Tea Traders, has direct tea to tea estates in the Assam District of Northern India. The other ingredients are commodities which are in plentiful supply.

As the Company grows in size, we anticipate dealing more directly with the tea growers. We intend to visit the tea estates so that we can verify that the labor conditions of the tea workers meet international standards and International Labor Organization conventions. We also expect to ensure that the tea is grown organically.

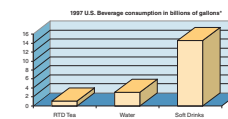
Market Opportunity

Beyond Snapple—The Emerging Market for Quality Bottled Tea

We have identified four market trends that are fueling demand for Honest Tea within the \$72 billion non-alcoholic liquid refreshment beverage market:



1. **Explosive growth in Ready-to-Drink (RTD) tea and bottled water markets**—Although carbonated soft drinks still dominate the beverage market, in the past two years Ready-to-Drink teas and bottled water have emerged as alternatives. Since 1992 the US tea market has enjoyed 40% annual growth, reaching sales of \$2 billion in 1996. The bottled water market has grown to \$2.4 billion, with most of the growth fueled by sales of single-serving bottles.



*Bottled and Soft Drink figures come from Beverage Marketing Inc. The RTD Tea figure is based on 1997 sales volume of \$2.4 billion, which equates to roughly one billion gallons.

2. **Beyond the tea bag—The emergence of tea culture**—Snapple and similar brands helped make tea accessible to a broader population. But now in the same way that gourmet coffees have become popular, consumers are beginning to develop an appreciation for fine tea. Over the last six years U.S. loose leaf tea sales have more than doubled, from \$1.8 billion

End-of-Chapter Learning Portfolio

End-of-chapter materials help students demonstrate a working understanding of key concepts and develop critical-thinking skills.

All chapters include the following:

- **Key Terms** list.
- **Critical Thinking Exercises** that require students to consider important issues and support thoughtful responses.
- **Key Concept Questions** that review core topics.
- **Application Exercises** that give students a structured opportunity to reinforce chapter topics through experience.
- **Exploring Your Community** and **Exploring Online** assignments that invite students to go into their business communities or search online for information.
- **BizBuilder Business Plan Questions**, which guide students through the development of business plan components as they learn new information throughout the book.
- **Cases for Analysis**, including one short case and one longer case with analytical questions. Cases cover a variety of issues and draw on real business scenarios. Examples of businesses that may be familiar to students include Foursquare, Urban Decay, and Amazon .com. Other organizations that may be less familiar include Happy Belly Curbside Kitchen, Gelato Fiasco, Anago Cleaning Systems, and AYZH. These cases reflect a diverse set of entrepreneurs, industries, and geographic locations.

Entrepreneurship Portfolio

Critical Thinking Exercises

- 2-1. Shawn is creating a business that provides advertising on public restroom stall doors. He is funding the project from his personal savings of \$5,000 and does not expect to use any outside financing. Should he create a business plan? Why or why not?
- 2-2. Charly and Devon are planning to license technology from NASA that would make it impossible to accidentally lock a child in a car. The technology is complex, and the market analysis and financial assumptions take up a lot of pages. The two women have written a 68-page business plan. Explain your concerns about the plan in light of the chapter text.
- 2-3. What factors make the difference between a good business plan and an excellent one?
- 2-4. Visit an Internet shopping site, such as the Home Shopping Network (<http://www.HSN.com>) or QVC (<http://www.QVC.com>). Select five products for sale that you find interesting or unusual. Make a list of the products and your explanation of the market opportunities they reflect.
- 2-5. Explain how this statement applies to business plans: Errors of omission can sometimes be greater than errors of commission.

Key Concept Questions

- 2-6. Explain why a prospective business founder might want to create a feasibility study or Business Model Canvas before developing a complete business plan.
- 2-7. How can spending time researching and writing a business plan save an entrepreneur time and money in the short and long term?
- 2-8. What are the parts of a Business Model Canvas? How can the entire canvas assist an entrepreneur?
- 2-9. Explain why the executive summary is the most important section of any business plan.
- 2-10. One mistake entrepreneurs make in their business plans is that of only including an income statement. What other financial statements should be incorporated and why?
- 2-11. Print an assignment, or any body of text, with 1-inch margins, double spaced, using 12-point Times New Roman. Then, print the same document with 0.8-inch margins, single spaced, using a 10-point Arial typeface. Which is easier to read? Why? How would this relate to a business plan?
- 2-12. Name three categories of investors/lenders that might have an interest in your business plan.
- 2-13. Why is it important to identify a business's culture from the beginning?

Entrepreneurship Portfolio

Critical Thinking Exercises

- 3-1. Use the following charts to define a business you would like to start, and analyze your competitive advantage.

Business Definition Question	Response
The Offer: What products and services will be sold by the business?	
Target Market: Which customer segments will the business focus on?	
Production Capability: How will that offer be produced and delivered to those customers?	
Problem Solving: What problem does the business solve for its customers?	
Competitive Advantage Questions	Competitive Difference (USP)
The Offer: What will be better and different about the products and services that will be sold?	
Target Market: Which segments of consumers should be the focus of the business to make it as successful as possible?	
Production and Delivery Capability: What will be better or different about the way the offer is produced and delivered to those customers?	

Attributes Important to Customers	Your Company		Competitor Number 1		Competitor Number 2		Competitor Number 3	
	Weight (1)	Rating (1-7)	Weight (1)	Rating (1-7)	Weight (1)	Rating (1-7)	Weight (1)	Rating (1-7)
Quality								
Price								
Location								
Selection								
Service								
Speed								
Turnaround								
Specialization								
Personalization								
Total	100							

Additional Resources

Instructor Resources

At the Instructor Resource Center, www.pearsonhighered.com/irc, instructors can easily register to gain access to a variety of instructor resources available with this text in downloadable format. If assistance is needed, our dedicated technical support team is ready to help with the media supplements that accompany this text. Visit <http://247.pearsoned.com> for answers to frequently asked questions and toll-free user support phone numbers.

The following supplements are available with this text:

- Instructor's Resource Manual
- Test Bank
- TestGen[®] Computerized Test Bank
- PowerPoint Presentations

Student Resources

BizBuilder Business Plan Worksheets and Templates Online

Go to www.pearsonhighered.com/mariotti to download business plan and presentation templates that will help students write a plan and present it.

- **BizBuilder Business Plan Worksheets** provide step-by-step instructions on building a business plan. The MS Word document contains a comprehensive set of questions and tables organized by business plan section. The Excel document includes Start-Up Costs, Sales Projections, Income Statement, Balance Sheet, Cash Flow, and Ratio Analysis worksheets.
- **BizBuilder Business Plan Template** provides a professional-looking format for a business plan that ties in with assignments in the text.
- **BizBuilder Business Plan Presentation Template** guides the student through the process of creating a PowerPoint presentation for a business plan.

Students can build their business plans using the BizBuilder worksheets. Appendix 2 provides students with instructions on how to use the worksheets that mirror the planning process in the book and contains more questions in some areas than are found in commercially available planning software. Once they have created a plan using the worksheets, students can generate a professional-looking document using the BizBuilder Business Plan Template.

LivePlan

Through a partnership with Palo Alto Software, we're able to provide 6-month access to LivePlan at a reduced rate with the purchase of a textbook. LivePlan simplifies business planning, budgeting, forecasting, and performance tracking for small businesses and startups. Set business goals, compare performance to industry benchmarks, and see all your key numbers in an easy-to-use dashboard so you know exactly what's going on in your business. To order LivePlan with the textbook, use package ISBN 0134072073.

About the Authors



STEVE MARIOTTI, founder of the Network for Teaching Entrepreneurship (NFTE), is considered one of today's leading experts in education for at-risk youth. In 1982, he changed career paths when he decided to leave the corporate sector and become a special education teacher in the New York City public school system.

Mariotti's first assignment was in the East New York section of Brooklyn, and his last was in the Fort Apache section of the South Bronx. During his six-and-a-half years teaching, Mariotti discovered he could successfully motivate even his most challenging students by teaching them how to run a business. This experience inspired him to create a new kind of program—the first to bring entrepreneurial education to low-income youth.

In 1987, Mariotti founded The Network for Teaching Entrepreneurship (NFTE). Today, NFTE's mission is to provide entrepreneurship education programs to young people from low-income communities around the world. NFTE's programs have a proven track record of success, and the network is widely viewed as the thought leader in the field. NFTE is an active member of the Council on Foreign Relations. In 2013, Mariotti traveled to Southeast Asia as a guest of the U.S. State Department on a mission to spread entrepreneurial education to youth from emerging economies in the region.

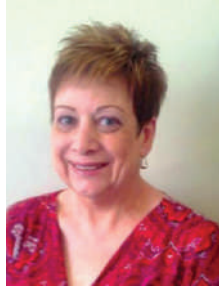
Mariotti was recently nominated for a Pulitzer Prize for his work chronicling the lives of entrepreneurs worldwide for *The Huffington Post* and for a Nobel Peace Prize for his pioneering work in entrepreneurial education. A life-long advocate for low-income students, Mariotti is the recipient of numerous awards including:

- Ernst & Young Entrepreneur of the Year Award
- Bernard A. Goldhirsh Social Entrepreneur of the Year Award
- National Director's Entrepreneurship Award from the Minority Business Development Agency of the U.S. Department of Commerce
- Association of Education Publishers' Golden Lamp Award
- ACE/Currie Foundation Humanitarian Venture Award
- America's Top High School Business Teacher

In addition, Mariotti has been the subject of many national media profiles on such programs as *ABC Evening News* and *20/20*.

He has authored and coauthored 34 books and workbooks on entrepreneurship, selling over 10 million worldwide and distributing many more copies for free to at-risk communities, including prisons. His popular book *The Young Entrepreneur's Guide to Starting and Running a Small Business* has recently been published in a new edition by Random House and is used to teach entrepreneurship from the United States to China, India, and the Middle East. Mariotti is a regular attendee and speaker at The World Economic Forum.

Raised in Flint, Michigan, Mariotti received his B.B.A. in business economics and his M.B.A. from the University of Michigan, Ann Arbor. He has also studied at Harvard University, Stanford University, and Brooklyn College. He started his professional career as a treasury analyst for Ford Motor Company before founding his own company, Mason Import/Export Services.



CAROLINE GLACKIN, Ph.D., is a “pracademic” who has successfully worked as a microenterprise and small business owner and manager, as an executive director of a community development financial institution, and as an academic in areas of community development finance, entrepreneurship, and management. She is the Edward L. Snyder Endowed Chair for Business at Shepherd University in West Virginia. She has been assisting entrepreneurs in achieving their dreams for over 30 years.

Glackin earned a doctorate from the University of Delaware, where her research emphasis was on microfinance. She received an M.B.A. from The Wharton School at the University of Pennsylvania and a B.A. from Bryn Mawr College. Her professional career began with the DuPont Company, American Bell, Bell Atlantic, and American Management Systems. She has consulted for businesses and not-for-profit agencies in turn-around and high-growth situations. After exiting a family business, she became the executive director of a community development financial institution serving businesses and not-for-profits.

Dr. Glackin has succeeded in leading change in the practical fields of her research and has received numerous honors and awards. These include the first Gloeckner Business Plan Award at The Wharton School, the Minority Business Advocate of the Year for Delaware from the U.S. Small Business Administration, and the She Knows Where She’s Going Award from Girls Inc. Dr. Glackin cochaired the Delaware Governor’s Task Force for Financial Independence. She has participated in the Cornell University Emerging Markets Think Tank Series and has presented her research and pedagogy at numerous professional conferences.

Acknowledgments

First, sincere thanks to the team of reviewers and consultants who provided insightful feedback during the development of our books:

Harvey Lon Addams, *Professor Emeritus, Weber State University, Ogden, UT*
 Elaine Allen, *CPA, Vice Chair, Not-for-Profit Sector, Mitchell & Titus, LLP*
 (EY Global Limited), New York, NY

Larry Bennett, *President, Benland Innovations, LLC, New York, NY*
 Sunne Brandmeyer, *Retired Lecturer/Advisor, Center for Economic*
Education, University of South Florida, Tampa, FL

Stanlee Brimberg, *Teacher, Bank Street School for Children, New York, NY*
 Howard W. Buffett, Jr.

John R. Callister, *Cornell University, Ithaca, NY*

John D. Christesen, *Westchester Community College, Valhalla, NY*

Steve Colyer, *Miami Dade College, Miami, FL*

Alan J. Dlugash, *CPA, Partner, Marks Paneth LLP*

Alex Dontoh, *New York University, New York, NY*

Thomas Emrick, *Executive Director, Smithsonian Science Education Center,*
Washington, DC

Joyce Ezrow, *Anne Arundel Community College, Arnold, MD*

Rita Friberg, *Pueblo Community College, Pueblo, CO*

George Gannage, Jr., *West Georgia Technical College, Carrollton, GA*

Janet P. Graham, *Coastal Carolina University, Conway, SC*

Vada Grantham, *Des Moines Area Community College, Ankeny, IA*

John Harris, *Eastern High School, Bristol, CT*
Deborah Hoffman, CPA, *Director of Finance, Math for America*
Donald Hoy, *Benedictine College, Atchison, KS*
Samira Hussein, *Johnson County Community College, Overland Park, KS*
Eileen M. Kearney, *Montgomery County Community College, Blue Bell, PA*
Sanford Krieger, Esq., *General Counsel & Managing Director, AEA Investors LP*
Jawanza Kunjufu, D.B.A., *President, African-American Images*
Corey Kupfer, Esq., *Partner, Hamburger Law Firm, Englewood, NJ*
Walter E. Lara, *Florida Community College, Jacksonville, FL*
Emily H. Martin, *Faulkner State College, Bay Minette, AL*
Alaire Mitchell, *Former Assistant Director of Curriculum Research,
New York City Board of Education, New York, NY*
Timothy R. Mittan, *Southeast Community College, Lincoln, NE*
Eric Mulkowsky, *Senior Management Consultant, Robin Hood Foundation,
New York, NY*
Raffiq Nathoo, *Retired Senior Managing Director, The Blackstone Group, LP,
New York, NY*
Ray E. Newton, III, *Senior Managing Director, Evercore Capital Partners,
New York, NY*
Arnold Ng, *Pepperdine University, Rancho Palos Verdes, CA*
William H. Painter, *Retired, George Washington University, Washington, DC*
Peter Patch, *President, Patch and Associates, San Francisco, CA*
Alan Patricof, *Founder and Managing Director, Apax Partners and Greycroft
LLC, New York, NY*
Carolyn J. Christensen, CPA, *Westchester Community College, Valhalla, NY*
Laura Portolese-Dias, *Shoreline Community College, Seattle, WA*
Christopher P. Puto, *University of St. Thomas, Minneapolis, MN*
Richard Relyea, *President, NY Private Equity Network (NYPEN),
New York, NY*
Linda Ross, *Rowan University, Glassboro, NJ*
Ira Sacks, Esq., *Partner, Law Offices of Ira S. Sacks LLP, New York, NY*
William A. Sahlman, *Harvard Business School, Cambridge, MA*
Arnold Scheibel, MD, *University of California at Los Angeles,
Los Angeles, CA*
William Searle, *Asnuntuck Community College, Enfield, CT*
LaVerne Tilley, *Gwinnett Technical College, Lawrenceville, GA*
Marsha Timmerman, *LaSalle University, Philadelphia, PA*
Liza Vertinsky, *Emory University, Atlanta, GA*
Peter B. Walker, *Managing Director, McKinsey and Company, Inc.,
New York, NY*
Donald A. Wells, *University of Arizona, Tucson, AZ*
Dennis R. Williams, *Pennsylvania College of Technology, Williamsport, PA*

I would like to thank my coauthor, Caroline Glackin, without whose talent and expertise this text would not have been possible, and Tony Towle, who from NFTE's inception has helped me organize my thoughts and experiences. I must also single out the help of two outstanding educators: John Harris and Peter Patch. Special thanks as well to Stephanie Wall, Daniel Tylman, Claudia Fernandes, Ilene Kahn, and the rest of the team at Pearson for their professionalism and editorial assistance.

Thanks also to Heather Van Sickle, President and CEO of the National Association of Community College Entrepreneurship (NACCE), and to Tony Mendes, President of the United States Association for Small Business and Entrepreneurship (USASBE), as well as the hundreds of members of these associations that have adopted Mariotti and Glackin texts to teach entrepreneurship to college students.

Additionally, I am grateful to Howard Stevenson, William Bygrave, Bob Pritzker, Stephen Spinelli, and the late Jeffrey Timmons for imparting their wisdom; and to Richard Fink of Koch Industries; Carl Schramm, formerly of the Ewing Marion Kauffman Foundation; and Mike Hennessy and John Hughes of the Coleman Foundation. Special thanks to Eddy Bayardelle and Melanie Mortimer of Merrill Lynch Global Philanthropy, and Kim Davis of Teneo Holdings.

Further, I would like to acknowledge Steve Alcock, Harsh and Aruna Bhargava, Lena Bondue, Dawn Bowlus, Shelly Chenoweth, Janet McKinstry Cort, Erik Dauwen, Clara Del Villar, Christine Chambers Gilfillan, Andrew Hahn, Kathleen Kirkwood, Michael Simmons, Sheena Lindahl, Cynthia Miree, Henry To, Carol Tully, Dilia Wood, and Elizabeth Wright, as well as Peter Cowie, Joseph Dominic, Paul DeF. Hicks, Jr., Ann Mahoney, David Roodberg, Phyllis Ross Schless, and Remi Vermeir, who have all provided countless insights into providing entrepreneurial opportunities to young people.

In addition, I would like to thank my brother, Jack, the best CPA I know, and my father, John, for financing much of NFTE's early work, and for their continuing love and guidance. Thanks are due to all the other teachers, students, experts, and friends who were kind enough to look over my work and help me improve it. Finally, I want to thank my mother, Nancy, a wonderful special education instructor who showed me that one great teacher can affect eternity.

Steve Mariotti

To my coauthor Steve Mariotti, who brought hope, opportunity, and change out of adversity to create the Network for Teaching Entrepreneurship and started this journey—many thanks. As Steve noted, the team at Pearson has been wonderful to work with again. Faculty reviewers and faculty members who have contacted me directly regarding earlier materials are always a valued source of insights.

Most importantly, I appreciate the terrific entrepreneurs who shared their stories with me, including the good, the bad, and the downright ugly! Their interest in sharing their experiences with students and willingness to carve out time to tell their tales demonstrates the kind of energy and enthusiasm we associate with successful entrepreneurs. They have made this endeavor interesting and engaging.

On a more personal note, I would like to thank my “family” at Shepherd University for their support and encouragement as I worked on *Entrepreneurship: Starting and Managing a Small Business, 4e*. Special thanks to Jay Azriel, Cynthia deLeon, Gordon DeMeritt, Meg Galligan, Heidi Golding, Terri Hasson, Ann Marie Legreid, Kathy Reid, Cindy Vance, and Hattie Bryant. Finally, to Elise and Spencer Glackin for being the best cheering section a mother could ever have—thanks and love to you both.

Caroline Glackin

ENTREPRENEURIAL PATHWAYS

Chapter 1

ENTREPRENEURS RECOGNIZE OPPORTUNITIES

Chapter 2

THE BUSINESS PLAN: ROAD MAP
TO SUCCESS

Chapter 3

CREATING BUSINESS FROM OPPORTUNITY



Entrepreneurs Recognize Opportunities

Learning Objectives

1. Summarize what entrepreneurs do.
2. Examine how free-enterprise economies work and how entrepreneurs fit into them.
3. Identify and evaluate opportunities to start your own business.
4. Explain how profit works as a signal to the entrepreneur.



Tom Szaky, TerraCycle.
(Paul Zimmerman/
Getty Images)

“Everyone lives by selling something.”

—Robert Louis Stevenson, Scottish author

Tom Szaky was a 20-year-old college student in need of inspiration for a business plan competition, when he happened to visit friends who were using red worms to compost waste that they then used as plant fertilizer. The idea captured his imagination, and he created a business plan for an environmentally friendly company that would convert trash into fertilizer. Although he finished in fifth place in the competition, Szaky moved ahead to make the company a viable venture.¹

TerraCycle Inc. has expanded its product lines to encompass a wide range of recycling and upcycling, including branded products for Target and Kraft Foods. The company is the producer of the world’s first product made from and packed in recycled waste: fertilizer generated from waste. Szaky sells to some of the world’s largest retailers, including Wal-Mart, Target, and Home Depot, and oversees programs that involve entire communities in recycling projects. Sales exceed \$20 million per year, and the company has collected literally billions of discarded items. TerraCycle plant food was twice named the most eco-friendly product in Home Depot. Tom Szaky and TerraCycle have turned waste into treasure.

Entrepreneurship

Have you ever eaten a Subway sandwich? Used an Apple device? Listened to music with Skullcandy headphones? The entrepreneurs that founded these companies brought these products into your world. Entrepreneurship is all around us.

What Is an Entrepreneur?

Most Americans earn money by working in *business*. They are somehow engaged in the buying and selling of products or services in order to earn money.

product something tangible that exists in nature or is made by people.

service intangible work that provides time, skills, or expertise in exchange for money.

entrepreneur a person who recognizes an opportunity and organizes and manages a business, assuming the risk for the sake of potential return.

- A **product** is something that exists in nature or is made by human beings. It is *tangible*, meaning that it can be physically touched.
- A **service** is labor or expertise exchanged for money. It is *intangible*. It cannot physically be touched.

Someone who earns a living by working directly for someone else’s business is an *employee* of that business. There are many roles for employees. At Ford Motor Company, for instance, some employees build the cars, some sell the cars, and some manage the company. But most employees have one thing in common—they do not *own* the business; they work for others who do. They know how much money they can earn, and that amount is limited to salary or wages, plus bonuses and any stock options they may receive.

People who have their own businesses work for themselves and are called small business owners, or **entrepreneurs**. Entrepreneurs are often both owners and employees. For an entrepreneur, the sky is the limit as far as earnings are concerned. Unlike an employee, an entrepreneur owns

¹TerraCycle Inc., accessed March 9, 2014, <http://www.terracycle.net>.

Learning Objective 1

Summarize what entrepreneurs do.



the profit that his or her business earns, and may choose to reinvest it in the business or take it as payment.

An entrepreneur is someone who recognizes an opportunity to start a business that other people may not have noticed and acts on it. As economist Jeffrey A. Timmons wrote in the preface of *New Venture Creation: Entrepreneurship for the 21st Century*, “A skillful entrepreneur can shape and create an opportunity where others see little or nothing—or see it too early or too late.”²

The French word *entrepreneur* began to take on its present-day meaning in the seventeenth century. It was used to describe someone who undertook any project that entailed risk—military, legal, or political, as well as economic. Eventually, it came to mean someone who started a new business venture—often of a new kind or a new (or improved) way of doing business. French economist Jean-Baptiste Say wrote at the turn of the nineteenth century:

An entrepreneur is an economic agent who unites all means of production—the land of one, the labor of another and the capital of yet another, and thus produces a product. By selling the product in the market he pays rent on land, wages to labor, interest on capital and what remains is his profit. He shifts economic resources out of an area of lower and into an area of higher productivity and greater yield.³

Say argued that entrepreneurs “added value to scarce resources.” Coal is a resource because it is used as fuel. Wood is a resource because it can be used to build a house or a table, to make paper, or to burn as fuel. Economists consider *scarce* all resources that are worth money, regardless of their relative availability.

Debbi Fields, founder of Mrs. Fields Cookies, took resources—eggs, butter, flour, sugar, chocolate chips—and turned them into cookies. People liked what she did with those resources so much that they were willing to pay her more for the cookies than it cost her to buy the resources to make them. She *added value* to the resources she purchased by what she did with them and created a multimillion-dollar business in the process.

Entrepreneurs may have different reasons to start and continue their businesses, but they share the common focus of capturing sustained value. Entrepreneurs seek opportunities that they envision as generators of incremental income, or *wealth*. Whether the business is intended to meet short-term household cash needs or to grow into a publicly traded company, viability is critical. Each activity of the firm should be driven by this need.

free-enterprise

system economic system in which businesses are privately owned and operate relatively free of government interference.

capitalism the free-market system, characterized by individuals and companies competing for economic gains, ownership of private property and wealth, and price determination through free-market forces.

Learning Objective 2

Examine how free-enterprise economies work and how entrepreneurs fit into them.



The Free-Enterprise System

An economy is the wealth and resources of a country or region, including its financial structure. The economy of the United States is a **free-enterprise system** because it is characterized by private (rather than governmental) ownership of capital assets and goods; anyone is free to start a business. Americans do not have to get permission from the government to go into business, although they are expected to obey laws and regulations.

The free-market system, which is also called **capitalism**, typifies the following attributes:

- Individuals and companies may compete for their own economic gains.

²Jeffrey A. Timmons, *New Venture Creation: Entrepreneurship for the 21st Century*. McGraw-Hill

³Jean-Baptiste Say, *A treatise on political economy; or the production distribution and consumption of wealth (Traité d'économie politique ou simple exposition de la manière dont se forment, se distribuent et se composent les richesses.)*, C. R. Prinsep, trans. [slightly modified] and Clement C. Biddle., ed. (Philadelphia: Lippincott, Grambo & Co., 1855). Library of Economics and Liberty, accessed June 26, 2013, <http://www.econlib.org/library/Say/sayT.html>.