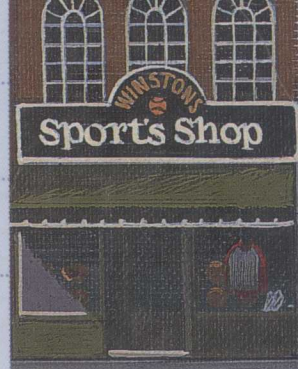


# SMALL BUSINESS MANAGEMENT

## SIROPOLIS FIFTH EDITION



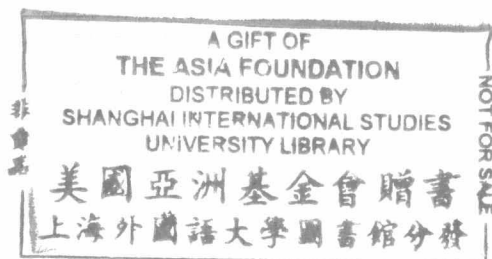
# SMALL BUSINESS MANAGEMENT

A GUIDE TO  
ENTREPRENEURSHIP

F I F T H E D I T I O N

NICHOLAS SIROPOLIS

*Cuyahoga Community College*



HOUGHTON MIFFLIN COMPANY BOSTON TORONTO  
Geneva, Illinois Palo Alto Princeton, New Jersey

Sponsoring Editor: Diane McOscar  
Editorial Assistant: Maggie May  
Project Editor: Mary Ann Carberry  
Production/Design Coordinator: Sarah Ambrose  
Senior Manufacturing Coordinator: Marie Barnes  
Marketing Manager: Robert D. Wolcott

Cover design: Libby Plaisted

Illustration: Chuck Wilkinson

Credits: All photographs by Karabinus & Associates, Inc. except the following: Page 10, Michael Dwyer/Stock Boston; page 40, Susan Fitzhugh/Stock Boston; page 65, *The Cleveland Press*, Cleveland, Ohio; page 80, Courtesy of Society Corporation; page 119, Frank Siteman/Stock Boston; page 148, Courtesy of The Southland Corporation; page 193, Comstock; page 164, Arthur Treacher's; page 167, Arthur Treacher's; page 200, *The Business Review*, formerly *The Western Reserve Business Review*; page 219, George Haling Prod./Photo Researchers; page 268, Nancy D'Antonio/Photo Researchers; page 302, Spencer Grant/Stock Boston; page 318, Kathie Hirko, Riverbed Studio, Cleveland, Ohio; page 345, Courtesy of Price Waterhouse; page 373, David Young Wolff/TSW; page 409, Michael Keller/FPG International; page 436, Courtesy of Jefferson Smurfit Corporation; page 468, © Mark Richards; page 484, Comstock; page 506, Courtesy of Trak Auto; page 540, Bob Daemmrich/Stock Boston; page 572, Spencer Grant/Stock Boston; page 603, Comstock; page 631, Renee Dekona; page 662, Courtesy of International Business Machines Corporation.

Copyright © 1994 by Houghton Mifflin Company. All rights reserved.

No part of this work may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying and recording, or by any information storage or retrieval system without the prior written permission of Houghton Mifflin Company unless such copying is expressly permitted by federal copyright law. Address inquiries to College Permissions, Houghton Mifflin Company, 222 Berkeley Street, Boston, MA 02116-3764.

Printed in the U.S.A.

Library of Congress Catalog Card Number: 93-78699

Student Book ISBN: 0-395-47207-5

Examination Copy ISBN: 0-395-69242-3

456789-DH-97 96

# DEDICATED

---

*To my father, Constantine,  
and to my mother, Penelope —  
both of whom  
were entrepreneurs*



## P R E F A C E

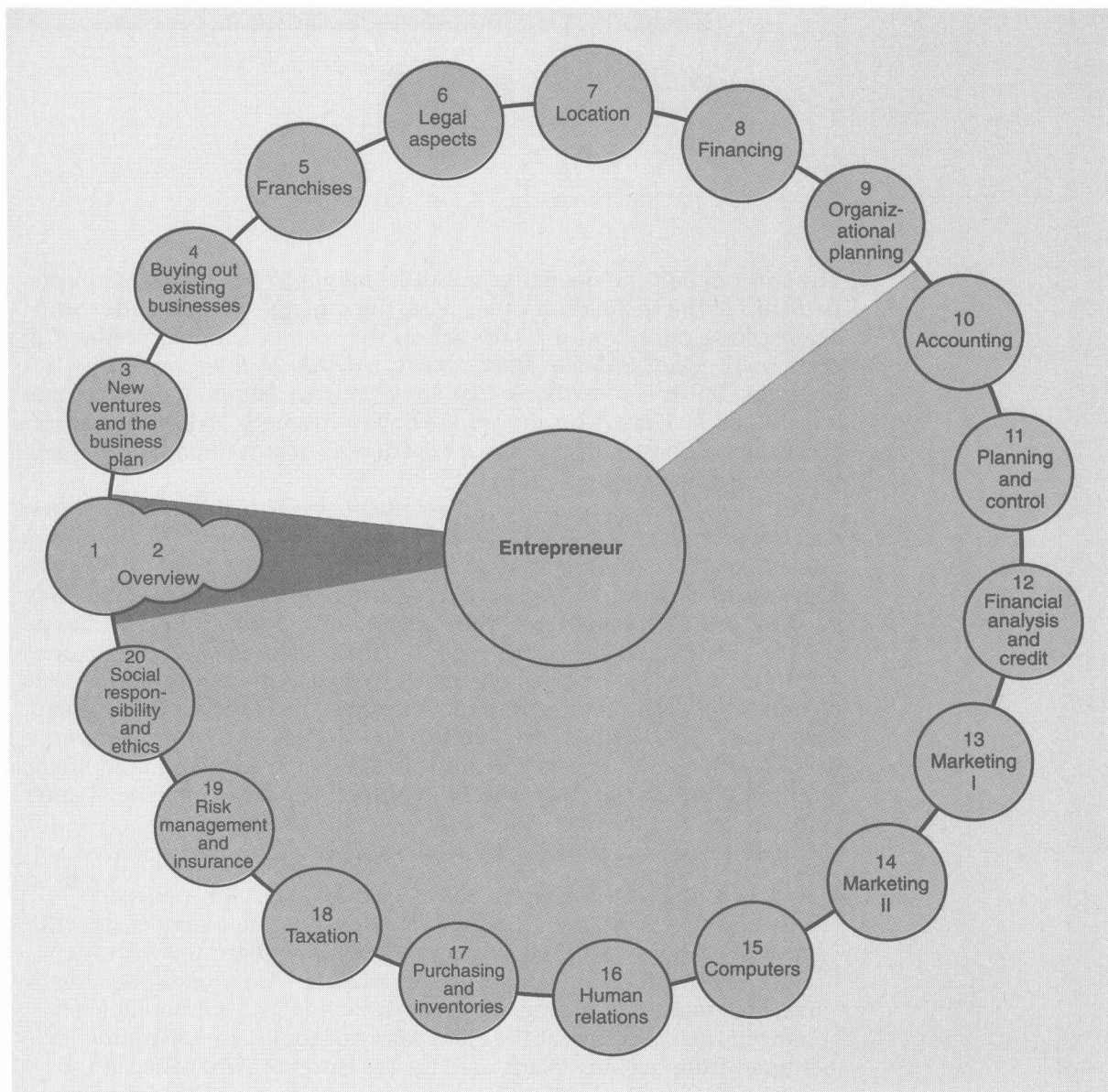
The spirit of entrepreneurship cannot be taught in a textbook. Entrepreneurship is the inspiration of an idea, the struggle of men and women against long odds, and the satisfaction that comes from succeeding on one's own. *Small Business Management: A Guide to Entrepreneurship* is a textbook, but it is a textbook that conveys what being an entrepreneur is *really* about. That's why almost one half of this book is devoted to cases and examples based on the actual experiences of entrepreneurs and people in small business.

But entrepreneurship is more than inspiration, zeal, and hard work; the entrepreneur must know how to write a business plan, research a market, keep accounting records and pay taxes, and be socially responsible. *Small Business Management* gives students the information they need to turn their inspiration and dedication into successful businesses.

This text covers the entire spectrum of entrepreneurship. Chapters 1–2 are an overview of entrepreneurship. Chapters 3–9 discuss the aspects of launching a new venture and include topics such as the business plan, legal aspects, and financing. Chapters 10–20 explore the problems connected with managing an ongoing venture such as using computers, marketing, and social responsibilities and ethics. Please see the chapter guide for the full list of chapter topics.

The following are some of the features of *Small Business Management*:

- Focus on cases. Each chapter has three cases: one comprehensive case and two short cases. Each comprehensive case describes how the entrepreneurs began their ventures, how they progressed with them, and the directions in which they are moving. These cases have financial statements, including ones that show how the entrepreneurs financed their ventures at the start. Many of these cases also show examples from business plans used by the entrepreneurs. The case method of instruction focuses, not on memorization, but on thinking through true-to-life business problems and opportunities. These in-depth accounts of entrepreneurs let students know what entrepreneurship is *really* about.
- Extremely readable text. The book is written in a lively, enthusiastic style that invites students to learn about entrepreneurship, its opportunities and its promise.



- Real-world examples coupled with business principles and concepts. Throughout the text, examples from the world of entrepreneurship clarify key concepts, such as the business plan and the marketing mix.
- A systematic approach to the study of entrepreneurship. Students' first exposure to entrepreneurship may easily be confusing or over-

whelming, if only because of the many concepts, procedures, and regulations that must be learned. Our sequencing of subjects is a logical and orderly approach to mastering the text's body of knowledge.

- An emphasis on social responsibility and ethical behavior. In fact, an entire chapter is devoted to those subjects. In addition, our cases reflect the need of entrepreneurs to behave ethically and be socially responsible.

## Specific Changes from Prior Editions

This edition of *Small Business Management* differs in many ways from prior editions. Informed by a vision of what entrepreneurship should be and could be, this edition's changes reflect the latest wisdom and thought about what it takes to make good as an entrepreneur. Specifically, this edition has:

- Reinforced the importance of business plans by moving coverage forward to Chapter Three, and by expanding and updating coverage
- Doubled the coverage of marketing to two chapters, with added emphasis on marketing research, promotion, and global marketing
- Condensed the opening overview of small business to two chapters
- Included 24 new cases, most of them original and based on the author's interviews of fellow entrepreneurs
- Expanded the chapter on legal aspects to cover torts and to improve the coverage of government regulations
- Added an appendix offering a checklist of questions for those students who aspire to go into business for themselves
- Added an appendix giving the addresses and telephone numbers of all offices of the U.S. Small Business Administration
- Expanded the coverage of cultural diversity, emphasizing its prevalence and benefits to businesses today
- Added coverage of the global economy, focusing on its opportunities to entrepreneurs
- Added the latest thought on how best to apply the principles of total quality management (TQM)
- Expanded and underscored the need for social responsibility and ethics
- Added many real-world examples of small businesses and entrepreneurs and updated information in every chapter
- Improved the ratio of cases devoted to women entrepreneurs to 40 percent

- Keyed the end-of-chapter summaries to the learning objectives that introduce each chapter
- Boosted the book's visual appeal by improving its graphics and by increasing the number of photographs, with the result that exhibits now appear on almost every page

There are, however, things about *Small Business Management* that we have not changed. As in earlier editions, we have tried to write a textbook that reflects the letter and spirit of the entrepreneurial tradition, a textbook that is teachable and readable, content-rich and stimulating. And, as always, we have tried to convey the conviction that entrepreneurship is a vital, dynamic, and rewarding endeavor.

## Features of the Package

### *For Instructors:*

**Instructor's Resource Manual** features for every chapter: a discussion of the purpose of the chapter, tips on using the chapter, learning objectives, a chapter outline, and answers to the discussion and review questions. Also included are answers to the case discussion questions, which provide detailed analyses of all cases.

**Test Bank** contains true-or-false, multiple choice, essay, and application questions for each chapter, and has been expanded to 1,300 items.

**Computerized Test Bank** is a computerized testing program with all items from the printed test bank in a powerful, easy-to-use format. It has the flexibility and sophistication to adapt to all your needs and experiences.

**Transparency Package** contains seventy-five acetates of all important exhibits from the text.

### *For Students:*

**Study Guide** features for every chapter: learning objectives, chapter review, multiple-choice, and true/false questions, terms to define, and much more. In addition, students will gain real world experience with an important new section on designing and developing a business plan.

**Computerized Business Plan** is a computerized version of the Study Guide's business plan application.

**Enterprise: A Simulation** involves the startup and operation of a retail jeans and tops store. Students act as management teams to make a variety of decisions that affect their company's operations.

**Entrepreneur: A Simulation** concerns the takeover and operation of a retail clothing store. Students consider the variables involved in business decision making.



**Opening a Business** guides students through the process of gathering and analyzing data on key areas of business ownership, then asks them to complete summary sheets based on that information.

## Acknowledgments

This book is by no means the work of one person. Many have contributed to its development. Let me mention just a few:

- The entrepreneurs who gave so freely of their time and energies to supply me with case material.
- The faculty and staff at Cuyahoga Community College, who enabled me to create an accredited curriculum devoted to entrepreneurship. I am especially indebted to Darl Ault, Elizabeth Boyer, Mildred Brown, John Coleman, Walter Johnson, Kenneth Killen, Kermit Lidstrom, Joseph Malone, Robert Parilla, George Plavac, Robert Sexton, Richard Shapiro, Booker Tall, and Lowell Watkins.
- The Greater Cleveland Growth Association, where I first got the idea to create an entrepreneurship curriculum. In particular, I am indebted to Melvin Roebuck, with whom I have had a long professional relationship.
- The U.S. Small Business Administration, which never failed me in my numerous requests for help.
- Reviewers whose suggestions and comments were helpful in creating the fifth edition:

Barry Ashmen  
Bucks County Community College  
Richard Bevans  
Kodiak College  
Robert E. Bidwell  
University of Dayton  
John Carpenter  
Corpus Christi State  
Bonnie Chavez  
Santa Barbara City College  
Gene Hastings  
Portland Community College  
Ronald Jones  
Laney College  
William J. Jordan  
Community College of Allegheny  
County — Boyce Campus  
Jack K. Mandel  
Nassau Community College

Paul D. Maxwell  
Bridgewater State College  
Timothy S. Mescon  
Kennesaw State College  
Ken Millner  
College of the Redwoods  
Joan Nichols  
Emporia State University  
David O'Dell  
McPherson College  
Diana Pappin  
Indiana Vocational Technical College  
Michael Pitts  
Virginia Commonwealth University  
Kevin J. Roth  
Clarion University of Pennsylvania  
Gary Strom  
Minneapolis Technical College

William Syvertsen  
Fresno City College

John Tate  
Montclair State University

- Reviewers whose numerous criticisms were so creatively helpful to me in previous editions: A. Keith Strasser, Moorpark College; Richard E. LaBarre, Ferris State University; James Christensen, Delta College; David V. Aiken, Hocking Technical College; John J. Buckley, Orange County Community College; Bernard W. Weinrich, St. Louis Community College at Forest Park; and Ernest H. Brass, III, Lake Erie College.
- Members of the North American Case Research Association for their permission to use two of their cases.

To all of these men and women and their organizations, my heartfelt thanks.

NICHOLAS SIROPOLIS

**S M A L L  
B U S I N E S S  
M A N A G E M E N T  
S I R O P O L I S  
F I F T H E D I T I O N**

# C O N T E N T S

## **Preface xix**

## **PART I An Overview of Business 1**

### **Chapter 1 Small Business in a Global Economy 1**

#### **The Place of Small Business in History 2**

*The Rising Status of Small Business 3*

#### **Definitions of Small Business 3**

*The SBA's Definitions 4*

#### **The Strengths of Small Business 5**

*Financial Performance 7*

*Innovation 8*

*The Dependence of Big Business on Small Business 8*

*Creation of New Jobs 9*

#### **The Weaknesses of Small Business 10**

*Reasons for Failure 11*

*Lack of Managerial Expertise 11*

#### **The Global Economy and Cultural Diversity 12**

*Global Change and Small Business 13*

*Cultural Diversity, Globally and at Home 14*

*Growth of Minorities 14*

#### **A Look at the Future 15**

*Affluence and Leisure 17*

*Individualism 17*

*Urbanization 18*

*Technology 18*

*Hierarchy of Technology 18*

*General Outlook 20*

#### **Summary 20**

#### **Discussion and Review Questions 21**

#### **CASE 1A Academy Specialties, Inc. 23**

#### **CASE 1B The Decline of Bigness 32**

#### **CASE 1C Marvelous Meals 33**

### **Chapter 2 Diversity and the Entrepreneur 36**

#### **Defining the Entrepreneur 37**

*Ross Perot, Entrepreneur 38*

*Robert Johnson, Entrepreneur* 39  
*Pure Entrepreneurs* 40  
*Entrepreneurship and Management* 41

**Entrepreneurial Traits 41**

*Innovation* 43  
*Risk Taking* 44  
*Self-Confidence* 45  
*Hard Work* 46  
*Goal Setting* 47  
*Accountability* 48

**Developing Entrepreneurs 49**

*A Tradition of Entrepreneurship* 50  
*The Emergence of Women in Small Business* 51  
*Sheryl Handler, an Uncommon Entrepreneur* 52  
*Education: An Influence* 53  
*Cultural Diversity in Small Business* 53  
*Rewards and Hazards of Entrepreneurship* 53

**Summary 54**

**Discussion and Review Questions 55**

**CASE 2A** *Teddi's Restaurants* 57

**CASE 2B** *Arlene Craig* 65

**CASE 2C** *Karla Addington* 67

**PART II Starting a New Venture 69**

**Chapter 3 New Ventures and the Business Plan 69**

**The Need for Planning 70**

*Road Map* 71  
*Outside Pressures* 71  
*Authorship of Business Plan* 72  
*Scarcity of Formal Planning* 73

**Preparation of the Parts of a Business Plan 73**

**Getting the Facts 77**

*Step 1: Making the Commitment* 78  
*Step 2: Analyzing Oneself* 78  
*Step 3: Choosing a Product or Service* 78  
*Step 4: Researching the Market* 80  
*Step 5: Forecasting Sales Revenues* 82  
*Step 6: Choosing a Site* 83  
*Step 7: Developing a Production Plan* 84  
*Step 8: Developing a Marketing Plan* 84  
*Step 9: Developing an Organizational Plan* 86  
*Step 10: Developing a Legal Plan* 86  
*Step 11: Developing an Accounting Plan* 86  
*Step 12: Developing an Insurance Plan* 87  
*Step 13: Developing a Computer Plan* 87



	<i>Step 14: Developing a Total Quality Management Program (TQM)</i>	87
	<i>Step 15: Developing a Financial Plan</i>	88
	<i>Step 16: Writing a Cover Letter</i>	90
	<b>Summary</b>	90
	<b>Discussion and Review Questions</b>	91
<b>CASE 3A</b>	<i>Acorn Graphics</i>	93
<b>CASE 3B</b>	<i>A Second Act in Business Life</i>	104
<b>CASE 3C</b>	<i>The Unwanted Transfer</i>	105
<b>Chapter 4</b>	<b>Buying Out Existing Businesses and Patenting Inventions</b>	107
	<b>The Need for Planning</b>	108
	<i>Planning Guidelines</i>	108
	<i>Choosing a Product or Service</i>	109
	<i>Conducting the Search</i>	110
	<b>Evaluating an Existing Business</b>	110
	<i>Understanding the Seller's Motives</i>	111
	<i>Evaluating the Financial Aspects of a Business</i>	113
	<i>Setting a Price</i>	115
	<i>Negotiating a Price</i>	118
	<b>New Ventures Versus Buyouts</b>	120
	<b>Invention and the Entrepreneur</b>	120
	<i>The Patenting Process</i>	121
	<b>Summary</b>	123
	<b>Discussion and Review Questions</b>	124
<b>CASE 4A</b>	<i>All-Trex Security Group</i>	125
<b>CASE 4B</b>	<i>Virginia Baerga</i>	134
<b>CASE 4C</b>	<i>Wilson Stove Company</i>	135
<b>Chapter 5</b>	<b>Franchises</b>	137
	<b>A History and Definition of Franchising</b>	138
	<i>The Appeal of Franchising</i>	139
	<i>The Reach of Franchising</i>	141
	<b>Kinds of Franchising Systems</b>	142
	<b>Myths About Franchising</b>	144
	<i>The Myth of Instant Wealth</i>	144
	<i>The Myth of Independence</i>	144
	<b>Selecting a Franchise</b>	145
	<i>First Steps</i>	145
	<i>Reviewing the Checklist of Questions</i>	146
	<i>Getting Disclosure Statements</i>	146

	<i>Hiring a Lawyer</i>	148
	<i>Good Faith and Fair Dealing</i>	149
	<i>Negotiating the Franchise Contract</i>	150
	<i>Selling the Franchise</i>	151
	<i>Evaluating a Franchisor's Training Program</i>	152
	<i>Estimating the Costs to the Franchisee</i>	152
	<b>Franchise Opportunities for Minorities</b>	155
	<b>Women In Franchising</b>	156
	<b>Global Franchising</b>	157
	<b>Summary</b>	157
	<b>Discussion and Review Questions</b>	158
CASE 5A	<i>Arthur Treacher's, Inc.</i>	159
CASE 5B	<i>Ron Schultz</i>	170
CASE 5C	<i>Mary Poldruhi</i>	171
Chapter 6	<b>Legal Aspects</b>	173
	<b>The Need for Legal Advice</b>	174
	<i>Choosing the Right Lawyer</i>	176
	<i>What Entrepreneurs Want From Their Lawyers</i>	177
	<i>Understanding the Legalities of Franchising and Buyouts</i>	178
	<b>Legal Forms of Organization</b>	178
	<i>Sole Proprietorships</i>	179
	<i>General Partnerships</i>	180
	<i>Other Partnership Forms</i>	183
	<i>Kinds of Partners</i>	183
	<i>Regular Corporations</i>	184
	<i>S Corporations</i>	188
	<i>1244 Corporations</i>	189
	<b>Government Regulations and Paperwork</b>	189
	<b>Political Issues Involving Entrepreneurs</b>	191
	<i>The Need for the Entrepreneur's Involvement</i>	193
	<b>Contract Law and Tort Law</b>	194
	<i>The Requirements of Contract Law</i>	194
	<i>Breach of Contract</i>	196
	<i>Tort Law</i>	196
	<b>Summary</b>	197
	<b>Discussion and Review Questions</b>	198
CASE 6A	<i>Western Reserve Business Review</i>	199
CASE 6B	<i>Lettuce Entertain You Enterprises</i>	209
CASE 6C	<i>Two Corporate Law Problems</i>	210

## **Chapter 7 Location 212**

### **The Varying Importance of Location 213**

### **Marketing Research in Site Selection 214**

### **Selecting a Location 215**

*Locating a Wholesale, Retail, or Service Venture 215*

*Shopping Areas for Products and Services 218*

*Locating a Manufacturing Plant 220*

*Location Criteria Used by High-Technology Companies 223*

*The Influential Role of Shopping Centers and Industrial Parks 224*

### **Summary 225**

### **Discussion and Review Questions 225**

**CASE 7A** *Chocolate Emporium, Inc. 227*

**CASE 7B** *Susan Johnson 242*

**CASE 7C** *Donut Village 243*

## **Chapter 8 Financing 246**

### **Estimating Money Needs 247**

*The Price of Failing to Budget 248*

*Preparing a Budget 249*

### **Equity Capital Versus Debt Capital 253**

### **Sources of Money: Equity Capital 258**

*Venture Capital Firms 258*

*Small Business Investment Companies 260*

*Big Business 261*

*Other Sources 262*

### **Sources of Money: Debt Capital 262**

*Private Lenders 264*

*Supplier Credit 266*

*Government Lenders 266*

### **Special Programs for Minority Entrepreneurs 268**

### **Summary 269**

### **Discussion and Review Questions 270**

**CASE 8A** *ColeJon Mechanical Corporation 271*

**CASE 8B** *Swisshelm Clothing Store, Inc. 283*

**CASE 8C** *Bob Pizzuli 286*

## **Chapter 9 Organizational Planning and Total Quality Management 288**

### **The Need for Organizational Planning 289**

### **Defining Skill Needs 290**

### **Finding the Right Professionals 291**

### **Building a Staff 293**

*Job Descriptions 293*

	<i>Organizational Charts</i>	294
	<i>Finding the Right Employees</i>	297
	<i>Delegating Authority</i>	298
	<b>Total Quality Management</b>	<b>299</b>
	<i>The Essence of TQM</i>	299
	<i>Definition of Quality</i>	300
	<i>TQM Myths</i>	302
	<b>Fulfilling Skill Needs</b>	<b>303</b>
	<i>Boards of Directors</i>	303
	<i>Management Consultants</i>	306
	<i>The Federal Government</i>	307
	<i>Trade Associations</i>	311
	<i>Small-Business Networks</i>	312
	<i>Pooling Resources</i>	313
	<b>Summary</b>	<b>314</b>
	<b>Discussion and Review Questions</b>	<b>315</b>
CASE 9A	<i>Trolley Tours of Cleveland, Inc.</i>	317
CASE 9B	<i>All in the Family</i>	329
CASE 9C	<i>Metal Parts, Inc.</i>	330
<b>PART III</b>	<b>Managing the Ongoing Venture</b>	<b>332</b>
<b>Chapter 10</b>	<b>Accounting</b>	<b>332</b>
	<b>The Uses of Accounting</b>	<b>333</b>
	<i>Elements of a Good Accounting System</i>	334
	<i>The Need for an Accountant</i>	335
	<i>Accounting for a Purpose</i>	336
	<i>Kinds of Accounting Systems</i>	337
	<b>Financial Statements</b>	<b>338</b>
	<i>The Income Statement</i>	338
	<i>The Balance Sheet</i>	340
	<i>The Cash Budget</i>	344
	<b>The Limitations of Accounting</b>	<b>348</b>
	<b>Summary</b>	<b>350</b>
	<b>Discussion and Review Questions</b>	<b>350</b>
CASE 10A	<i>Weaver Screen-Print</i>	352
CASE 10B	<i>McManamon Toy Store</i>	359
CASE 10C	<i>Karikas Fish Market</i>	360
<b>Chapter 11</b>	<b>Planning and Control</b>	<b>362</b>
	<b>Problems of Growth</b>	<b>363</b>
	<i>Four Stages of Growth</i>	363