

melvin j.
stanford

new
enterprise
management

NEW ENTERPRISE MANAGEMENT

Melvin J. Stanford



Reston Publishing Company
A Prentice-Hall Company
Reston, Virginia 22090

Library of Congress Cataloging in Publication Data

Stanford, Melvin J., 1932–

New enterprise management.

Includes index.

1. New business enterprises—Management. 2. Small business—Management. I. Title.

HD62.5.S73 1982 658'.022 81-13953

ISBN 0-8359-4886-2 AACR2

© 1982 by Reston Publishing Company, Inc.

A Prentice-Hall Company

Reston, Virginia 22090

All rights reserved.

No part of this book may be reproduced in any way,
or by any means, without permission in writing
from the publisher.

10 9 8 7 6 5 4 3 2 1

Printed in the United States of America.

ACKNOWLEDGMENTS

The materials in this book have been developed in connection with teaching university classes in New Enterprise Management, field and library research, and consulting with new and established business ventures. Most of the cases are of my own authorship. I appreciate the permission of Brigham Young University to use cases previously copyrighted in its name. I also appreciate the contribution of cases by other authors, who are acknowledged at the foot of the first page of their respective cases.

The subject companies of the cases have cooperated by providing materials and releasing the cases. Their interest has made possible the presentation of realistic issues for you to study.

My colleague Clinton Oaks contributed to the conceptual development of the relationships of objectives and strategy. Ross Workman contributed to the development of the material on patents and copyrights. Helpful comments on the cases and chapters have been given by other colleagues and friends, whose interest I appreciate.

My students have helped with the case development process through class discussion and written work. Their ideas and questions have also been a valuable aid for improvement of the text.

All of the cases in this book have been published by the Intercollegiate Case Clearing House, Boston, Massachusetts.

Miss Carol Tolman typed the manuscript for this book, assisted by Peggy Keele. Rudiger Wolf and Clyde Redford have provided valuable research assistance.

This is essentially a new book. My previous book of the same title was published in 1975. However, most of the material in this present book is new, with relatively little material carried forward from the previous book.

Miss Lorna Daniells, business bibliographer at The Baker Library, Harvard Business School, offered many helpful suggestions on Appendices A and B.

Fred Easter of Reston Publishing Company and his staff have been very helpful in the development and preparation of this book. Jeanne-Marie Peterson has ably served as production editor and has helped make what can be difficult work a pleasant process.

Notwithstanding the help of others, I take full responsibility for any errors or misinterpretations.

I wish to give special thanks to my family who has been patient with the time it has taken me to write this book and has given me unfailing encouragement along the way.

Melvin Stanford
September 1981

INTRODUCTION

There is a great need to understand the nature of starting a new enterprise and managing it through a developmental stage to stability and survival. Since most new companies remain in the small business classification, the same need applies to small businesses. Much of our technological and economic progress in the free world comes from starting and building new ventures, which are often more flexible and creative vehicles for innovation than large established companies.

What is different about managing a new venture or a small company as compared to a large and more stable organization? Entrepreneurs and small business managers usually have to face a higher degree of risk, operate with greater uncertainty and with less stability in terms of resources, and assume a wider range of functional and managerial responsibilities than managers in large corporations. The emphasis of business training in our society is often on the functional activities which are common to all business organizations of any size, as well as on large established companies rather than on new or small and growing firms. However, there seems to be a growing realization in our society of the need to help entrepreneurs and other managers learn more

about the opportunities, risks, and problems involved in starting and building a business enterprise.

Survival of the fittest applies in the world of business and economics just as it does in nature. And, in fact, we see that only the fittest do survive. Where does the elimination process take place? When does it take place? A failed business results in lost resources, but a failing business cannot survive, and probably should not survive, in a nonproductive or noncompetitive posture. The right to attempt and to fail is part of our free enterprise system. Economically, it may be better not to start a new business than to have it fail. Yet the willingness to attempt risk is something we need to preserve. With every right there is an obligation and a responsibility. Everyone who attempts to start a business ought to prepare well. I believe that the elimination process in business ventures should take place relatively more in the planning and preparation stage and relatively less after resources are committed which can be lost. One of the purposes of this book is to help you learn how to properly analyze, plan and prepare for a new venture and to be able to screen out ill-founded ventures that run a higher risk of failure if they are started without sound

planning and preparation. In this way, let us not attempt to go against the law of nature and the survival of the fittest but rather attempt to move the elimination process earlier so that those ventures that are actually begun may be more successful.

PURPOSE OF THIS BOOK

This book is written to help entrepreneurs and managers, and those preparing for such roles, to understand better the similarities and differences between new ventures and larger established firms and to develop further skills and insight by working with case materials as well as concepts and references.

New Enterprise Management is written for:

- New enterprise management courses
- Small business management courses
- Practicing entrepreneurs and managers
- Those preparing to become entrepreneurs and managers

Whether you are a student preparing to become an entrepreneur or manager, or are already active in such roles, you can find realistic, vicarious experiences in studying the cases in this book in relation to your own experience and in relation to the concepts and references in the text of the book. If you need greater depth of skill or understanding in functional specifics, there are some selected references in the Appendices which will enable you to review those functions in greater detail. Rather than attempt to organize the book along functional lines and to give technical details on the various business functions, I have followed a developmental sequence so that you who use the book may relate it more readily to the process of planning, startup, stability, growth, and

future development of a business organization.

HOW TO USE THIS BOOK

The text in the chapters of this book discusses a variety of business functions in a context of various stages in a business venture. I recommend that you begin by reading all of the text material in each of the six chapters to familiarize yourself with it early in the course you are taking or in your study of the contents of the book. This will give you an overview which you can then use as a basis to develop further understanding as you study the text material and then analyze the cases, chapter by chapter.

Graduate students generally have more specific facility with functional skills and can therefore concentrate more on the concepts and the case issues in the time available for study.

Undergraduate students should have a basic working knowledge of the business functions but may need to spend more specific time on applying functional tools to the cases as a basis for understanding their situation and analyzing their issues.

Entrepreneurs and managers may have varied preparation in business functions. For this reason, as well as to enhance the study of those using this book in classrooms, some functional references have been included. Note, however, that I recommend the use of professional help for the practicing entrepreneur or manager in many specialized functional areas as soon as it can be afforded. It appears that business firms that use functional and managerial experts more extensively tend to be more successful than business firms that do not. However, as an entrepreneur or manager you should at least become familiar with the functions in which you are not actually proficient.

This book can also be useful to a would-be entrepreneur or manager whether or not you are studying in a formal class of instruction. For those of you in this category, as well as for college students, it is especially important to note the encouragement in the book to *gain some experience* and familiarity with the area you wish to enter by working with someone already in that kind of business.

Thus, my intent is to help you bring to practical application your own background of skill and training together with some elements of research and experience in the area of new enterprise. The emphasis of the book is to use theory, concept, research findings, case situations, and other functional tools to develop a familiarity and some degree of proficiency with entrepreneurial situations.

HOW TO STUDY CASES

Every case in this book is a real business situation in which someone is faced with decisions. All of the data in the cases are factual; however, names are disguised in several of the cases in order to respect confidential information or sensitive issues.

The purpose of the cases is to provide a basis for study, analysis, discussion, and resolution of the issues involved. Normally this process will begin with your individual preparation. If you are a student in a college course, you should then continue your analysis and discussion in student groups, if possible. Then the case study process can fully emerge in class discussion guided by your professor. If you are using this book for individual study, please keep in mind that you have an additional need to think through the cases and challenge your own assumptions and those in the cases in order to reach an understanding of the decision situations that they portray.

The cases in this book are not intended to illustrate principles or theory as such or to serve as examples of correct or incorrect management. The world of business is typically not abstract, theoretical or clinical in nature. Entrepreneurs and managers are rewarded for making effective decisions, not for defining theories or discovering solutions or answers. In preparing to make effective decisions you must learn to generalize concepts from study and experience so that a conscious pattern of skill can help you deal with the endless sequence of events for which there is not a specific precedent. Cases can provide the basis for this kind of development. They can also help you understand and apply theory and technique in reaching a recommendation or decision.

The key words in studying cases are *identify, interpret, analyze, decide (or recommend), and support*. A conceptual framework for your case study is provided in the text material in the chapters. References for functional tools are also found in the chapters as well as in the Appendices. Keep in mind that numbers are a necessary means to an end. Most of the cases in this book have some degree of numerical analysis involved, but the numbers aren't the only issues. Sometimes the numbers aren't even the principal issues, but you cannot safely ignore numbers. The assignment questions at the end of the cases should be helpful to you in your approach to the process of case analysis.

The cases in this book have been prepared to include basic information relevant to the central issues of a case. No case could include all of the detail you think you might want. One of the advantages in working with cases is the opportunity to learn to make effective analyses and decisions on the basis of limited information. The appropriate question to raise is whether you have made good use of what information you do have. If you will do this, you should find that the study of

cases can be a rewarding experience which will help you develop skills beyond what you could gain through lectures of principles alone.

HOW TO KEEP WELL INFORMED

Time is a resource which we all have in common. It is a precious resource which must be used carefully. As you prepare in college or in other ways to start and manage a business, you will need to use your time wisely in order to do well in your preparations. Then when you begin to participate in entrepreneurial and managerial activities you will find that the pressure on your time increases. You will spend most of your time working with your business and probably feel that you will have too little time to read or study. Therefore, I encourage you to prepare yourself well if you are in the stage of preparation. If you are now in the stage of business development and operation, or when you reach that stage, please remember the need to improve continually your skills and keep up with what is going on in the business world.

The information explosion is perhaps most dramatic in science and technology, but it is just as critical in other business functions and especially in a managerial and entrepreneurial role. Here are a few suggestions to help you use your limited time to keep current without being overwhelmed by excessive information.

First, try to become aware and stay aware of the major information sources available to you and relevant to what you are doing. Second, be selective. By that, I mean refrain from attempting to read too much, or you will find that you are piling up reading material on your desk and actually reading very little of it. Third, set aside some regular time for study and re-

view. If you do not do this, you will find that other activities will take up your time and you have no time left for study.

Your local public or university library can be one of your best friends for the purpose of keeping current. If you will visit regularly, you can learn of new books and publications in your specific field of interest. Many of the periodicals that you will want to read can be available in such a library.

Regular and thorough reading of just a few periodicals probably justifies a subscription. For example, I would recommend that you subscribe to *The Wall Street Journal* and *Business Week*. Also, I recommend that you subscribe to one or several specific industry publications relevant to the kind of business in which you are engaged or plan to become involved. As your business grows, some of your functional managers will want to subscribe to publications of their own organizations.

Here are several other sources of information I encourage you to consider:

You should consider becoming a member of the National Federation of Independent Business (NFIB). This organization is located at 490 L'Enfant Plaza East, S. W., Suite 3206, Washington, D.C. 20024. It also has a West Coast location at 150 West 20th Avenue, San Mateo, California 94403. The NFIB has 630,000 members and is engaged in providing information to its members and in lobbying for favorable business legislation at the federal, state, and local levels. NFIB provides a newsletter which contains valuable business information. The NFIB also conducts quarterly surveys of members in order to obtain representative information for influencing legislation. NFIB members are alerted to current legislative issues which may interest or affect them.

The *Business Owner* is published for owners and managers of business firms. Banks often publish newsletters, some of which are mailed upon request without charge. For example, for many years I have read the *Economic Report* published by the Manufacturers Hanover Company, 350 Park Avenue, New York, New York 10022. Also, the Chase Manhattan Bank publishes a complimentary periodical, and other banks publish newsletters, some of which are provided on a complimentary basis.

The Small Business Administration has several newsletters and a number of publications which may be of interest to you.

Bank of America publishes a *Small Business Reporter* series.

Recently there have been several new periodicals in the entrepreneurial field, such as *Inc.*, *The Entrepreneur*, and *Venture*.

Nation's Business is published by the U.S. Chamber of Commerce and is worth reading regularly.

You might also consider subscribing to

the *Journal of Small Business Management* which is published by the Bureau of Business Research, West Virginia University, Morgantown, West Virginia 26506.

The *Journal* is co-sponsored by the International Council for Small Business Management Development, which is open to membership by businessmen, educators, professionals, and government representatives.

Information on membership in the International Council is available from the Office of the *Journal* at West Virginia University.

There are many other periodicals worth reading if you have the time. *Harvard Business Review* and *Fortune* may seem oriented to the world of big business and to some extent they are. However, they do have much information of interest to you if you care to read them.

There are other sources of information listed in Appendix B of this book. Let me emphasize to you the importance of selecting a few good ones that cover the ground for you and then reading them regularly and thoughtfully while avoiding the temptation to try to read too many things in haste.

CONTENTS

ACKNOWLEDGMENTS, XI

INTRODUCTION, XIII

- Purpose of This Book, xiv
- How to Use This Book, xiv
- How to Study Cases, xv
- How to Keep Well Informed, xvi

1 BACKGROUND OF BUSINESS ENTREPRENEURSHIP, 1

- The Nature of Enterprise, 1
- Fundamental Business Decisions, 5
- Entrepreneurship, 5
- What Does It Take to Be An Entrepreneur?, 8
- Minority Enterprise, 10

Cases

1. *Owen-Martin Photo Service*, 15
Author's Comments on Owen-Martin, 28
2. *The Chinle Navajo Chicken Store*, 31

2 PROSPECTS AND PLANNING, 45

- What Kind of Business?, 45
- Start, Buy, or Franchise?, 46
- Forms of Business, 48
- Objectives and Strategy, 48
- Business Research and Projections, 51
- The Business Development Plan, 56

Cases

3. *Student Enterprises (A)*, 57
4. *Pro-Formas for Century Bolt (A)*, 61
5. *Pro-Formas for Century Bolt (B)*, 71
6. *Pro-Formas for Century Bolt (C)*, 77
7. *The Chambo Brick Factory*, 85
8. *Sunrise at Bear Lake*, 93

3 STARTUP, 109

- Capital and Other Resources, 109
- Produce for Sales, 113
- Price for Profit, 113
- The Role of Management, 114
- Organization: People and Structure, 115
- Professional Help, 119

Cases

9. *John Goddard Films*, 121
10. *Student Enterprises (B)*, 135
11. *The Case of the Blank Check*, 139
12. *Student Enterprises (C)*, 145
13. *The Greek Restaurant: A New Venture*, 149
14. *The Greenwood Daily News*, 159

4 STABILIZATION AND SURVIVAL, 163

- Management Controls, 163
- Business Problems of Smaller Firms, 164
- Government Regulations, 167
- Tax Planning and Reporting, 169
- The Impact of Inflation, 170
- Business Responsibility, 170

Cases

15. *Newman Seafood, Inc.*, 171
16. *Baker Bros., Inc.*, 177
17. *Kalispel Metal Products Company*, 187
18. *Sunshine Ice Cream Company*, 191
19. *Cervantes Equestrian Center*, 197

5 GROWTH AND DEVELOPMENT, 205

- Market Awareness, 205
- Negotiating and Competing, 206
- Protecting Innovation, 211
- Personal or Professional Management, 213
- Capital for Growth, 214
- International Opportunities, 214

Cases

20. *Transera, Inc.*, 217
21. *Rochester Insulated Glass*, 229
22. *Reliable Sheet Metal Company, Inc.*, 235
23. *Anderson Manufacturing Company*, 241
24. *American Western Construction Company*, 251

6 NEW DIRECTIONS, 265

- Innovation and Continuity, 265
- Diversification, Merger, or Acquisition, 265
- Private or Public, 267
- How to Get Out of Business, 268
- Success in Large Companies, 269

Cases

25. *TransAmerica Safety Products, Inc.*, 271
26. *Triangle Construction Company*, 289
27. *Bradley's Bakery*, 301
28. *A. Johnson and Company*, 309
29. *Pine Tree Campground*, 315
30. *Collier Company*, 321

APPENDIX A: SELECTED REFERENCES, 333

APPENDIX B: SOURCES OF RATIOS AND OTHER BUSINESS DATA, 339

APPENDIX C: BREAK-EVEN ANALYSIS, 343

APPENDIX D: OUTLINE FOR BUSINESS DEVELOPMENT PLAN, 345

APPENDIX E: RATIO ANALYSIS, 353

INDEX, 357

1

BACKGROUND OF BUSINESS ENTREPRENEURSHIP

THE NATURE OF ENTERPRISE

The free enterprise system in the United States has long been a model for the rest of the world. In the United States there are fewer restrictions to starting a business than in almost any country, and there are larger markets and more opportunities for new ventures than in most other countries. If you have resources and ability and are able to meet the needs of the market with some product or service, you can start up a new business in the United States quite easily, so long as you meet existing regulations for licenses, taxes, zoning, and the like.

How many business firms are there in the United States? In what legal form do they do business? What is their sales revenue and net profit?

There were a total of 14,599,000 business firms in the United States in 1976, according to the *Statistical Abstract of the United States*, 1979 edition (see Table 1-

1). Total receipts of these business firms were approximately 4.14 trillion dollars. Net income (less deficits) was 245 billion dollars in 1976.

Proprietorships are the form of the largest number of businesses (11.4 million), but corporations got 87 percent of all receipts of business. Partnerships have less than one half of the receipts of proprietorships and only about 20 percent as much net income as proprietorships. In Chapter 2 of the book we will further consider the nature of these three forms of business, and other forms.

Table 1-1 also shows that in the 1970s the number of business firms in the United States increased at a faster rate than the population. This indicates that relatively more people are entering into business than in the 1960s.

What are the sizes of business firms in the United States? Most firms are small, in terms of sales revenue. In 1975, nearly two-thirds of all United States businesses

2 Background of Business Entrepreneurship

Table 1-1
Proprietorships, Partnerships, and Corporations—Number, Receipts, and Income: 1960 to 1976

Item		1960	1965	1970	1973	1974	1975	1976
Number (Total)	1,000	11,172	11,416	12,001	13,592	13,902	13,979	14,559
Receipts	bil. dol	1,095	1,469	2,082	2,994	3,557	3,685	4,141
Net income (less deficit)	bil. dol	73	111	109	176	201	196	245
Proprietorships, number	1,000	9,090	9,078	9,400	10,648	10,874	10,882	11,358
Business receipts	bil. dol	171	199	238	311	328	339	375
Net income (less deficit)	bil. dol	21	28	33	47	46	45	50
Partnerships, number	1,000	941	914	936	1,039	1,062	1,073	1,096
Total receipts	bil. dol	74	75	93	125	139	147	160
Net income (less deficit)	bil. dol	8	10	10	9	9	8	10
Corporations, number	1,000	1,141	1,424	1,665	1,905	1,966	2,024	2,105
Total receipts	bil. dol	849	1,195	1,751	2,558	3,090	3,199	3,606
Percent of all firms receipts		77.5	81.3	84.1	85.4	86.9	86.8	87.1
Net income (less deficit)	bil. dol	44	74	66	120	146	143	185
Population (million)		181	194	205	210	212	214	215
Population per business firm		16.2	17.0	17.1	15.5	15.2	15.3	14.8

Source: Statistical Abstract of the U.S., 1979.

had total sales of under \$25,000 (See Table 1-2).

About 97 percent of all business firms in the United States are classed as "small" by the Small Business Administration, which defines a small business in terms of its number of employees in relation to its industry.

How many new businesses are started? How many fail? Why do they fail?

New business incorporations have been increasing since 1960, and business failures have been decreasing (see Table 1-3). There aren't any complete records of the number of new partnerships and proprietorships, although the net gain in those can be approximated from Table 1-1. Business failures in Table 1-3 generally are those that involve default on recorded li-

abilities. There are believed to be many more uncounted failures whose liabilities may not be a matter of record.

Folklore among venture capitalists is that 16 out of 17 business firms eventually fail. Another expression often heard is that four out of five new business firms fail within their first five years. We really do not know the failure rate, but it appears to be a very high percentage. The figures in Table 1-3 show a declining failure rate for 1978, but the recession of 1979-80 is showing an increase in business failures, especially among small firms.

What are the main causes of business failure? Lack of adequate capital is a reason often given by businessmen who fail. Lack of management ability is frequently mentioned by creditors and investors, and

Table 1-2
Number of Business Firms by Size of Receipts
1975

Size Class of Receipts	Total		Number (1,000)			Receipts (bil. dol)		
	Number (1,000)	Receipts (bil. dol.)	Proprietorships	Partnerships	Corporations	Proprietorships	Partnerships	Corporations
Total	13,979	3,446.9	10,882	1,073	2,024	339.2	146.0	2,961.7
Under \$25,000	9,107	54.7	8,008	550	469	48.3	4.0	2.4
\$25,000-\$49,999	1,519	53.1	1,192	141	186	42.6	5.1	5.4
\$50,000-\$99,999	1,217	86.3	852	134	261	59.6	9.6	17.1
\$100,000-\$199,999	1,575	330.2	461	114	674	63.4	16.2	154.7
\$200,000-\$499,999			235	91		68.2	27.7	
\$500,000-\$999,999	249	168.7	39	26	184	26.4	17.4	124.9
\$1,000,000 or more	284	2,753.9	15	19	250	30.7	66.0	2,657.2
Percent Distribution								
Under \$25,000	65.1	1.6	74.4	51.2	23.2	14.2	2.7	.1
\$25,000-\$49,999	10.9	1.5	11.0	13.1	9.2	12.6	3.5	.2
\$50,000-\$99,999	8.9	2.5	7.8	12.5	12.9	17.6	6.6	.6
\$100,000-\$199,999	11.3	9.6	4.2	10.6	33.3	19.0	11.1	5.2
\$200,000-\$499,999			2.1	8.4		20.1	18.9	
\$500,000-\$999,999	1.8	4.9	.3	2.4	9.1	7.8	11.9	4.2
\$1,000,000 or more	2.0	79.9	.1	1.7	12.4	9.0	45.4	89.7

Source: Statistical Abstract of the U.S., 1979.

Table 1-3
New Business Concerns and Business Failures: 1960 to 1978

Formations and Failures	1960	1965	1970	1972	1973	1974	1975	1976	1977	1978
Business formations:										
Index, net formations (1967 = 100)	94.5	99.5	107.1	115.5	115.5	111.2	108.9	117.2	126.6	133.0
New incorporations-1,000	183	204	264	317	329	319	326	376	436	478
Failures, number-1,000	15.4	13.5	10.7	9.6	9.3	9.9	11.4	9.6	7.9	6.6
Rate per 10,000 concerns	57	53	44	38	36	38	48	35	28	24

Source: Statistical Abstract of the U.S., 1979.

4 Background of Business Entrepreneurship

poor recordkeeping and lack of marketing skill are mentioned by the Small Business Administration as being leading causes of failure.

Managerial incompetence or inexperience is cited by the Bank of America as "the number one cause, underlying 90 percent of all failures," according to an article in the November 1980 issue of *CPA Client Bulletin*. That article also lists other causes mentioned by the Bank of America and three other sources, all of which are summarized in Table 1-4.

Notice the similarity in some of the causes listed by different sources. Of all

the causes listed, most are controllable by management. Other reasons could be mentioned. Management cannot foresee all of the specific problems that might appear, but you need to be aware of the major causes of failure as seen by others and to recognize that competence and experience in running a business is needed in order to succeed.

How does a business make a profit? "Buy low and sell high," goes the old saw. Of course you have to do that in some way, but let us look a little deeper. How do you create values that enable you to sell something for more than you paid for it?

Table 1-4
Causes of Business Failure

Cause	A Government Analysis	A Large Accounting Firm	Dun and Bradstreet Study	Bank of America
Inadequate Accounting Systems	X	X		
Poor Location	X			
Lack of Marketing Skills	X			
Lack of a Capital Budget		X		
Inadequate Provisions for Contingencies		X		
Lack of Management Skills		X		
Excessive Inventory		X		
Incompetence			X	
Lack of Experience			X	
Neglect			X	
Fraud			X	
Disaster			X	
Poor Recordkeeping				X
Reckless Money Management				X
Lack of Formal Planning				X
Poor Use of Management Time				X
Insufficient Marketing Talent				X
Indifferent Employees				X
Inability to Cope with Growth				X

Source: Compiled from *CPA Client Bulletin*, November 1980, American Institute of Certified Public Accountants, Inc.

On the personal level, skill in making a product or performing a service needed and wanted by a customer can yield a profitable price of the article or compensation for the service. Marketing seeks to make customers aware of the values to them of your products compared to their alternatives and to deliver those products to them in a way that will fill their needs profitably for them and for you. Manufacturing has always existed on a personal handicraft scale but makes its substantial profits through economies of scale (mass production) made possible by capital equipment and labor specialization. Financial leverage, the use of borrowed funds to earn more than they cost, has made possible large-scale projects as well as smaller technological advances. R & D (research and development) can yield profits through new technology as well as through innovations in marketing, finance, organization and overall strategy. All of these functions must enable you to fill customers' needs in such a way that the customer can and will pay you more than it costs you to fill those needs.

FUNDAMENTAL BUSINESS DECISIONS

Decisions for a new business are in many respects similar to those in larger companies. Some business decisions with which most firms must be concerned include the following:

What goods or services are to be produced?

For whom are they to be produced? Who is the customer?

How many units of what item will be produced at what time?

What price is to be charged for which items? How is price to be determined?

How will information about the product or service be conveyed to the potential buyer?

What items of raw materials or merchandise are to be purchased?

How much inventory will be kept on hand? When will new stock be ordered? In what quantity?

What price will be paid for those inputs?

What quality and specifications will be required?

What sources will be used?

What capital machinery, fixtures, and facilities are to be used or acquired?

Where will the business be located?

How much capital will be required? From what source? On what terms?

What employees will be hired? What will they be paid? What fringe benefits?

What working conditions will be established for employees?

How will union activity, if any, be handled?

How will government regulatory requirements be met?

While this is an incomplete list of all possible business decisions, it does illustrate some of the essential kinds of decisions that have to be made, many of them on a recurring basis. The making of these decisions in a business firm is the work of *managers*. In a new venture, the entrepreneur may be the only manager to make decisions at the start. In contemplating a new venture, many of these and other decisions need to be worked out in advance on an organized planning basis.

ENTREPRENEURSHIP

Entrepreneur is defined (*Webster's New World Dictionary*) as "a person who or-