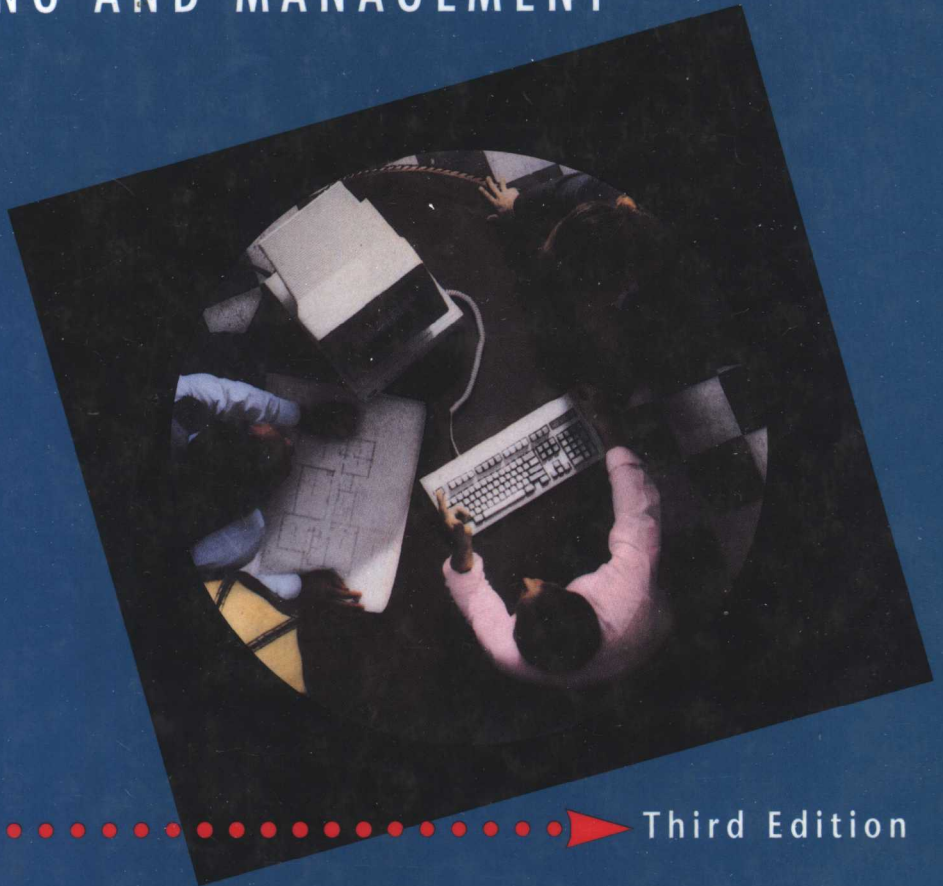


SMALL BUSINESS

PLANNING AND MANAGEMENT



Third Edition

CHARLES R. KUEHL

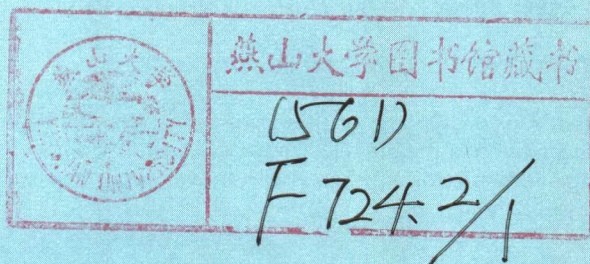
PEGGY A. LAMBING

SMALL BUSINESS PLANNING AND MANAGEMENT

THIRD EDITION

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University of Missouri—St. Louis

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University of Missouri—St. Louis



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P R E F A C E

Entrepreneurs have accomplished much in recent years while facing many challenges. Some entrepreneurs, such as Bill Gates of Microsoft, are well known and receive substantial publicity. However, there are millions of unknown entrepreneurs who provide goods and services and create many jobs while overcoming the obstacles of running a business. These efforts, although often unrecognized, have a significant impact on the U.S. economy.

Small businesses have had to adjust to many external factors. The recession of the early 1990s created additional hardships for both start-ups and well-established companies. At the same time, businesses had to contend with enormous increases in insurance costs for liability coverage, health insurance, and workers' compensation. In some parts of the country, such as Florida and Hawaii, small businesses were temporarily or permanently shut down because of hurricanes. Record-breaking floods in the Midwest have caused the failure of many small businesses. In Los Angeles, the riots destroyed many businesses that will never reopen.

There have been many positive external factors, though, that have created opportunities for entrepreneurs. An increased emphasis on quality products and services and the need to quickly adapt to changes in the marketplace allow small businesses to succeed where large businesses have failed. In addition, cost-cutting measures in large corporations have resulted in more outsourcing, spawning many new start-ups that provide specialized tasks. Finally, global realliances, such as the pending free-trade agreements with Canada and Mexico, the unification of the European market, the dissolution of the Soviet Union, and the emergence of the Pacific Rim nations have opened the door to millions of new customers.

Our purpose in writing this text was threefold. First, we hope to increase your appreciation for the efforts and risks of entrepreneurs. Without these individuals, the variety of goods and services, which we often take for granted, would not exist. Second, we want to enhance your awareness that owning a small business often is a viable career option. While some students choose to be self-employed immediately after college, most graduates decide to work for someone else. However, those who choose careers with major corporations may find later in life that small-business ownership is a rewarding change. Finally, we hope to show the methods by which small businesses are planned and managed. The management of a small firm is a difficult and challenging task that requires the entrepreneur to perform a variety of duties. As the text points out, this is much more difficult than it first appears.

► ORGANIZATION

The text is divided into six parts. The first part, "Small Business and the Entrepreneur," provides insight into the role of small business in the United States, describes the typical personality of a successful entrepreneur, and identifies many of the myths concerning small business failures. It also compares the most common routes to small-business ownership—starting a company, taking over an existing business or a family-owned business, or buying a franchise. A checklist for evaluating franchises is provided.

The second part, "Start-up Issues," is concerned with the early stages of planning a business. The topics covered include start-up costs and the risk of undercapitalization, sources of financing, legal considerations, and site selection. Current issues, such as the limited liability corporation, the use of computerized databases in site selection, and possible environmental liability associated with the purchase of a site, are also discussed.

"The Marketing Function" is the title and focus of Part 3. The issues in this section are crucial in the development of a successful small business. This part includes discussions of marketing strategy, marketing research, pricing, personal selling, developing a salesforce, and promotion. Special sections on competitor analysis, pricing checklists, and the development of a publicity program, provide practical applications in addition to marketing theory. A new chapter on advertising provides comprehensive information on developing an advertising program.

Part 4, "Managing the Business," covers a variety of management functions. Included in this section are chapters on organizing; human resource management; financial management; cash flow, purchasing and inventory management; and operations and quality management. This section includes discussions on human resource management and the law, managerial succession, and total quality management.

Part 5, "Contemporary Issues," discusses issues of increasing importance to the entrepreneur: business ethics and social responsibility; the government; exporting and importing; insurance and crime; and information systems, computers, and common office technology. These chapters provide information on coping with rising insurance costs, developing a company code of ethics, and entering overseas markets. The final chapter provides information on current technology, as well as future technology, and discusses the impact of these innovations on small businesses.

The last part, "Comprehensive Cases," features a group of multi-issue cases that covers the concepts presented in each part of the text. These cases are longer and cover topics in greater depth than the single-issue cases found at the end of each chapter.

► CHANGES IN THE THIRD EDITION

We have made a number of substantive and organizational changes in the third edition in response to comments from our users and reviewers.

- Part 3, “The Marketing Function,” has been expanded by addition of a new chapter on advertising. Coverage of promotion and the sales effort has been expanded significantly. New material on personal selling, forming a sales force and the sales effort has been added.
- A new section on family-owned businesses has been added to Chapter 4, “Taking Over an Existing Business,” which addresses the strengths and weaknesses of these companies.
- Specific methods to help students determine the sales potential of a small business have been included in Chapter 9, “The Site,” and Chapter 11, “The Market and the Marketing Plan.”
- Information on total quality management is incorporated throughout the text to show students how this philosophy affects all aspects of company management.
- A new section on crime prevention has been added to the insurance chapter, highlighting the problems small businesses face in deterring internal and external crime.
- More cases have been added to the third edition. Each chapter has two cases, some with accompanying videos, and Part 6 consists of six longer comprehensive cases.
- Expanded coverage of social responsibility issues and their effect on management decisions is also included. Many of the chapter opening vignettes feature companies that are innovators in the area of social responsibility.
- More emphasis has been given to the issue of diversity, recognizing the importance and contributions of minority entrepreneurs. Examples have been integrated throughout the text, with specific coverage on managing diversity in Chapter 16, “Human Resource Management.”

► FEATURES

We have incorporated a number of features—many of them new to this edition—to illustrate the challenges of managing a small business.

Small Businesses Making a Difference. At the beginning of each chapter we feature an entrepreneur whose business concept or management tech-

nique is exemplary. These entrepreneurs own small businesses that are making a big difference in society.

Small Business Snapshots. The Snapshot boxes that appear in each chapter provide real-world examples of the chapter concepts.

Inc. Magazine Management Ideas. Each chapter features a successful management idea from *Inc.* magazine. These show how real companies have solved problems or created opportunities.

Checklists. Many chapters include handy checklists of items that entrepreneurs should consider before making major decisions such as selecting a franchise, choosing a location, or purchasing a computer system.

Cases. Cases appear at the end of each chapter, with video cases provided for a number of topics. Six comprehensive cases are included in Part 6. All cases are based on actual companies, although the names and locations are sometimes fictitious. These cases allow students to apply their understanding of the principles and techniques discussed in the chapters.

Glossary. Key terms, highlighted in the text, are listed at the end of each chapter. Definitions can be found in the glossary which follows Part 6.

► SUPPLEMENTARY MATERIALS

.....

The Instructor's Manual and Test Bank contains a detailed chapter outline, new examples, answers to the end-of-chapter questions, an analysis of each case, transparency masters, and more. A separate section provides over 1,500 objective test questions.

The *Study Mate* is a new supplement developed to help the student review material presented in the textbook. It includes chapter overviews, self-test questions, mini-cases, exercises and more. The *Study Mate* was written by Glenn Grothaus of St. Louis Community College at Meramec.

The *Business Plan Guidebook*, written by George J. Foegen of Metropolitan State College, is designed to assist students in the preparation of a business plan. It includes a computer disk with financial spreadsheets. The easy-to-follow instructions help students work through all aspects of the plan, particularly the financial portion.

Videos are available to adopters of the text. These videos feature Springfield Remanufacturing Corporation, Samuel Adams Lager, the Hempstead Watermelon Cooperative, and others. Other videos provide management advice from *Inc.* magazine.

► ACKNOWLEDGMENTS

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Charles R. Kuehl
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St. Louis, Missouri
October, 1993

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