



10TH EDITION

# Longenecker, Moore, Petty Small Business Management





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# Small Business Management

**An Entrepreneurial Emphasis**

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*To the memory of*

*Dr. H. N. Broom,  
1911–1994,*

*whose vision, along with that of coauthor Justin G. Longenecker,  
helped launch the first edition in 1961*



## TO THE STUDENT

As authors of *Small Business Management: An Entrepreneurial Emphasis*, we must measure our success by the effectiveness of our presentation to you. Although you may not be involved in selecting this textbook, we still consider you our customer and wish to be sensitive to your needs in learning the material presented. For this reason, we have made every effort to make it understandable and relevant. We have also tried to consider your viewpoint in each chapter we have written.

We extend our best wishes to you for a challenging and successful course.



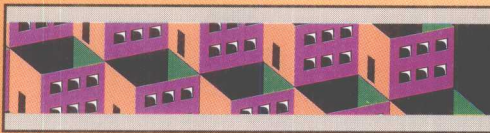
Guided Tour for Students

# Special Features

**Before You Open The Door To The 10th Edition of Small Business Management: An Entrepreneurial Emphasis**

the special features of the text, take a walk through a few pages. The topic of small business holds special interest for us, and we are excited to share what we know with you. Whether you already have plans to start your own business and are looking for hands-on, practical guidance, or you are simply interested in the possibility but aren't sure if it would be right for you, this text has what you need. As you'll see on the next few pages, we offer a variety of rich and interesting features to help you develop practical skills for managing a small business as well as an awareness and appreciation for the challenges involved. **COME ON IN!**





# Integrated Learning System

Start here

Think back to the last term paper you wrote. Do you recall the frustration of not knowing what to write about and the difficulty you had in just getting started? The all too frequent result is procrastination. Many times, students only begin the writing process when they are faced with an impending deadline.

In some ways, preparing a business plan is similar to writing a term paper. It is agonizing to begin and difficult to know what to say, especially when you lack experience and are at a loss as to what needs to be included. Even when you know the questions, you may have difficulty finding good answers. But just as you learn from writing a term paper, you increase your understanding of what you want to accomplish in a new business by carefully preparing a business plan.

As we begin this chapter, we give several reasons for writing a business plan. None, however, is as important as its use as a selling document—selling your ideas and even yourself to others. If you have felt pride in completing a term paper, you will feel exhilaration from writing an effective business plan. The business plan—its preparation, content, and organization—will serve as the thread that weaves a common purpose through Chapters 6–12.

## WHAT IS A BUSINESS PLAN?

For the entrepreneur starting a new venture, a **business plan** is a written document that accomplishes two basic objectives. First, it identifies the nature and text of the business opportunity—why does such an opportunity exist? Second, the business plan presents the approach the entrepreneur plans to take to exploit the opportunity.

A business plan explains the key variables for success or failure. It can anticipate the different situations that may occur—think about what can go wrong. But, as we noted earlier, a business plan is, first, most, a selling document. It is the tool that exists to sell the merits of an investment opportunity. In another sense, it is the *game plan*—it visualizes the strategy that provides your motivation. The business plan should lay out only ideas, describe where you are now, point out where you want to go, and state how you propose to get there.

The business plan is the entrepreneur's blueprint for creating the new venture. In this sense, it might be called the *first creation*. Without first mentally creating the desired end result, the entrepreneur probably will not see it become reality, or the *second creation*. For anything that is built—a house or a business—there is always a need for a written plan. This blueprint is, in essence, a balance between the mental and the physical, between an idea and reality. The business plan is to provide a clear visualization of what the entrepreneur intends.

A business plan, as presented here, is a proposal for launching a new venture. The venture itself is the outgrowth of the business plan. As part of the entrepreneur projects the marketing, operational, and financial aspects of a

### Looking Ahead

After studying this chapter, you should be able to:

1. Answer the question "What is a business plan?"
2. Explain the need for a business plan from the perspective of the entrepreneur and the investor.
3. Describe what determines how much planning an entrepreneur and a management team are likely to do.
4. List practical suggestions to follow in writing a business plan, and outline the key components of a business plan.
5. Identify available sources of assistance in preparing a business plan.

1. Answer the question "What is a business plan?"

116

## Part 3 Developing the New Venture Business Plan

business for the first three to five years. In some cases, a business plan may address a major expansion of a firm that has already started operations. For example, an entrepreneur may open a small local business and then recognize the possibility of opening additional branches or extending the business's success in other ways. A business plan may also be a response to some change in the external environment (government, demographics, industry, and so on) that may lead to new opportunities.

More mature businesses may prepare strategic and operational plans that contain many of the features described in this chapter. In fact, planning should be a continuous process in the management of any business. That is, you should think of a business plan as an ongoing process, and not as an end product. This last point deserves repeating: *Writing a business plan is primarily an ongoing process and only secondarily a product or outcome.*

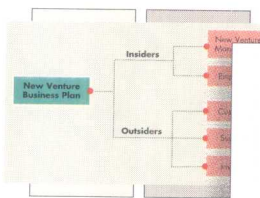
### THE NEED FOR A BUSINESS PLAN

Most entrepreneurs are results-oriented, and for good reason. A "can do" attitude is essential when starting a new business. Otherwise, the danger of paralysis by action or, equally bad, paralysis by analysis can become overwhelming. Getting the business operational should be a high priority. However, using the need for action as an excuse to neglect planning is also a big mistake.

#### Reasons for Preparing a Business Plan

There are two reasons for writing a business plan: (1) to create a selling document to be shared with outsiders; and (2) to provide a clearly articulated statement of goals and strategies for internal purposes. Figure 6-1 provides an overview of those who might have an interest in a business plan. One group of users shown in the figure consists of outsiders who are critical to the firm's success; the remaining group consists of the internal users of the business plan. Let's consider the internal users first.

Figure 6-1  
Users of Business Plans



### Looking Back

1. Answer the question "What is a business plan?"
  - A business plan identifies the nature and context of the business opportunity and answers the question "Why is there an opportunity?"
  - A business plan describes the approach the entrepreneur will take to exploit the opportunity.
2. Explain the need for a business plan from the perspective of the entrepreneur and the investor.
  - The business plan provides a clearly articulated statement of the firm's goals and strategies.
  - The business plan helps identify the important variables that will determine the success or failure of the firm.
  - The business plan is used as a selling document to outsiders.
  - An investor plays the role of a skeptic, thinking more about what could go wrong than what will go right.
  - An investor needs to know how the business will help achieve the investor's personal goals—to maximize the potential return on investment through the cash flows that will be received from the investment, while minimizing personal risk exposure.
  - An investor needs to know how he or she will cash out of the investment.
3. Describe what determines how much planning an entrepreneur and a management team are likely to do.
  - The allocation of scarce resources, time and money, affects how much planning will be done.
  - Other factors that affect the extent of planning include (1) management style and ability, (2) management preference, (3) the complexity of the business, (4) the competitive environment, and (5) the level of uncertainty in the environment.
4. List practical suggestions to follow in writing a business plan, and outline the key components of a business plan.
  - A business plan will be more effective if you follow these suggestions: (1) provide a table of contents and tab each section for easy reference; (2) use a loose-leaf binder to page the plan and to facilitate revisions; (3) use charts, graphs, tabular summaries, and other visual aids to convey interest and provide an effective presentation that is easy to follow; (4) maintain confidentiality of the plan; and (5) ask carefully chosen third parties to give their assessment of the quality of the plan.
  - Key components of a business plan are (1) a cover page, (2) an executive summary, (3) a general company description, (4) a products and/or services plan, (5) a marketing plan, (6) a management plan, (7) an operating plan, (8) a financial plan, and (9) an appendix.
5. Identify sources available for assistance in preparing a business plan.
  - A variety of books and software packages are available to assist in the preparation of a business plan.
  - Professionals who have expertise, such as attorneys, accountants, and other entrepreneurs, can provide useful suggestions and assistance in the preparation of a business plan.

One of the business plan software packages described in the list at the end of this chapter is *BusPlanBuilder*. We have chosen *BusPlan*, which can be purchased as a supplement to this text, to use in a feature of this book called "The Business Plan Laying the Foundation." At the conclusion of each chapter in this section of the book (Chapters 6 through 12), we present questions to be answered in the process of writing a business plan. We then identify the part of *BusPlan* that will help you work through the given set of questions.

#### Locating Assistance in Preparing a Business Plan

The founder of a company is most notably a doer. Such a person often lacks the breadth of experience and knowledge, and possibly the inclination, needed for planning. Consequently, he or she must supplement personal knowledge and skills by obtaining the assistance of outsiders or by adding individuals with planning skills to the management team.

Securing help in plan preparation does not relieve the entrepreneur of direct involvement. He or she must be the primary planner. The entrepreneur's basic ideas are necessary to produce a plan that is realistic and believable. Furthermore, the plan eventually will have to be interpreted and defended to outsiders. An entrepreneur can be effective in such a presentation only by having complete familiarity with the plan.

However, after the founder has the basic ideas clarified, other individuals may be able to render assistance in preparing the business plan. Calling on outside help to finish and polish the plan is appropriate and wise. The use of business plan consultants is described in the Action Plan on p. 129. Other outside sources of assistance are listed below:



To help you organize your study, we have structured the **Student Learning Guide** around these same learning objectives. An icon beginning each section of the **Guide** identifies the corresponding learning objective. First, we recap each key section in the chapter, grouped by learning objectives. Next, a “**Quick Identification and Explanation**” section reviews important terms in the chapter. Next come True-False, Multiple-Choice, Fill-In, and Essay Questions—all organized according to the learning objectives they test.

## 6 The Role of a Business Plan for a New Venture

### LEARNING OBJECTIVES

1. Answer the question “What is a business plan?”
  - A business plan identifies the nature and context of the business opportunity, and it presents the approach to be taken by the entrepreneur to capture the opportunity.
2. Explain the need for a business plan from the perspective of the entrepreneur and the investor.
  - A business plan clearly states goals and strategies for internal purposes, and it is used as a selling document to outsiders.
  - A business plan must be designed to communicate effectively and quickly to prospective investors, who need to know how the business will help achieve the investor's personal goal—to maximize the potential return on investment through the cash flows that will be received from the investment, while minimizing personal risk exposure.
  - Most investors are more market-oriented than product-oriented.
3. Describe what determines how much planning an entrepreneur and a management team are likely to do.
  - The allocation of two scarce resources, time and money, affects how much planning will be done.

48

Part 3 Developing the New Venture Business Plan

### 5 Identify sources available for assistance in preparing a business plan.

- Professionals such as attorneys, accountants, and other entrepreneurs can provide useful suggestions and assistance in the preparation of a business plan.
- A large number of business plan computer software packages and books are available.

### QUICK IDENTIFICATION AND EXPLANATION

1. Answer the question “What is a business plan?”
  - business plan: a document containing the basic idea underlying a business and related considerations for starting up
4. List practical suggestions to follow in writing a business plan, and outline the key components of a business plan.
  - executive summary: a section of the business plan, written to convey a clear and concise picture of the proposed venture
  - products and/or services plan: a section of the business plan describing the product and/or service to be provided and explaining its merits
  - marketing plan: a section of the business plan describing the user benefits of the product or service and the type of market that exists
  - management plan: a section of the business plan describing the key players in a new firm and their experience and qualifications
  - operating plan: a section of the business plan describing the new firm's facilities, labor, raw materials, and processing requirements
  - financial plan: a section of the business plan providing an account of the new firm's financial needs and sources of financing and a projection of its revenues, costs, and profits
  - pro forma financial statements: reports that provide projections of a firm's financial conditions

47

## Chapter 6 The Role of a Business Plan for a New Venture

51

### 4 List practical suggestions to follow in writing a business plan, and outline the key components of a business plan.

8. The \_\_\_\_\_ is usually at the beginning of the business plan and summarizes the total plan.
  - executive summary
  - products and/or services plan
  - marketing plan
  - management plan
9. Prospective investors and lenders attach a high priority to the \_\_\_\_\_.
  - operating plan
  - marketing plan
  - products and/or services plan
  - appendix

### 5 Identify sources available for assistance in preparing a business plan.

10. A \_\_\_\_\_ allows an entrepreneur to experiment with various scenarios and quickly ascertain their effect on the firm's balance sheet, operating profits, and cash flows.
  - word-processing package
  - computer spreadsheet
  - business calculator
  - business plan

### FILL-IN-THE-BLANK QUESTIONS

Write the correct word in the blank provided.

#### 1 Answer the question “What is a business plan?”

1. A \_\_\_\_\_ is a written document containing the basic idea underlying a business and related considerations for starting up.
2. Planning should be a continuing process in the \_\_\_\_\_ of any business.

#### 2 Explain the need for a business plan from the perspective of the entrepreneur and the investor.

3. There are two reasons for writing a business plan to clearly state goals and strategies for internal purposes and to create a \_\_\_\_\_ document to be shared with outsiders.
4. A business plan can be used to enhance the firm's \_\_\_\_\_ with prospective customers and suppliers.
5. Most entrepreneurs need to raise \_\_\_\_\_ resources to supplement personal savings.
6. A \_\_\_\_\_ contains all the information needed to satisfy security laws related to warning potential investors about possible risks of an investment.
7. The basic goal of an investor is to maximize \_\_\_\_\_ on investment.
8. A business plan should seldom exceed \_\_\_\_\_ pages in length.

### QUESTIONS

T, if it is true, or with an F, if it is false.  
an is primarily a selling document.

\_\_\_\_\_ is a legal document for raising needed capital.

\_\_\_\_\_ provides a clear statement of goals and strategies.  
an is not seen by customers, suppliers, or investors.  
ne starting a business faces the task of raising financial resources.  
is a legal document for raising needed capital.

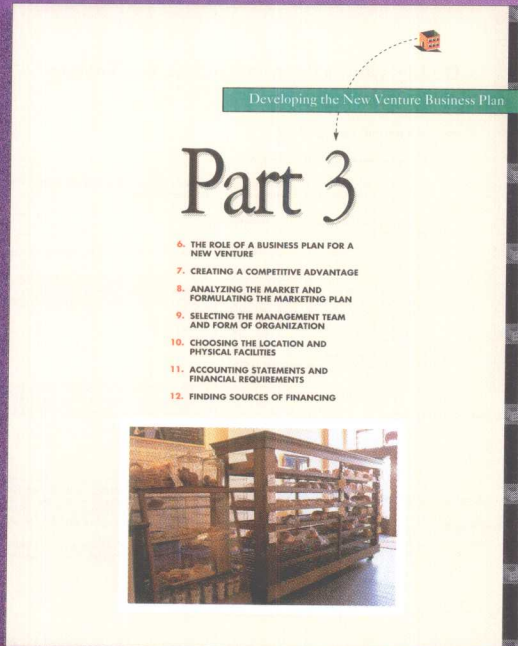
\_\_\_\_\_ is a legal document for warning potential investors about the possible risks.  
\_\_\_\_\_ of most investors is to maximize the return on the investment.  
an should be lengthy and detailed.

This tightly integrated learning system is designed to help you study efficiently. After reading the chapter, review the summary and key definitions. Then work through the **Student Learning Guide** questions. If you find from these review activities that you need further study on a particular objective, you can easily locate all applicable material by simply looking for the appropriate numbered learning objective in the text and **Learning Guide**.





# Build Your Own Business Plan



## Part 3: Developing the New Venture Business Plan, Step-by-Step.

In this edition, we've given the business plan the emphasis it deserves. Each chapter in Part 3 presents a major part of the business plan.

### Laying the Foundation.

Designed around a series of questions, these chapter-end exercises lead you through the building of your own business plan, guiding you to reflect upon critical issues that will impact your small business.

### *BizPlanBuilder/BizPlanBuilder Express.*

Now you can prepare your business plan using the software that real entrepreneurs use: *BizPlanBuilder* or the abridged *BizPlanBuilder Express* designed especially for students. This commercially successful software is available to you at a reduced price from **South-Western College Publishing**. At the end of every chapter in Part 3, we send you to the appropriate sections in *BizPlanBuilder* for preparing the portion of your plan discussed in the chapter.



## The Business Plan

### LAYING THE FOUNDATION

#### Introduction

Part 3 of this book, "Developing the New Venture Business Plan" (Chapters 6 through 12), deals with issues that are important when starting a new venture. Chapter 6 began with an overview of the business plan and its preparation. The remaining chapters of this part focus on major segments of the business plan—for example, the management plan, the marketing plan, and the financial plan. When you have studied these chapters, you will have the knowledge needed to prepare a business plan.

Recognizing that learning is facilitated when you apply what you study, we have designed a feature called "The Business Plan: Laying the Foundation" to conclude each chapter in Part 3. This feature provides guidelines for preparing the different segments of a business plan. It presents important questions that need to be addressed ("Asking the Right Questions"), and it identifies material in a popular software package that can be used to prepare the plan ("Using BizPlanBuilder").

#### Asking the Right Questions

Now that you have learned the main concepts of business plan preparation, you can begin to create a business plan by writing a general company description. In thinking about the key issues, respond to the following questions:

1. When and where is the business to start?
2. What stage of development is the company in?
3. What is the basic nature and activity of the business?
4. What is its primary product and/or service?
5. What customers are served?
6. What is the company's mission statement?
7. What are the company's objectives?
8. What is the history of the company?
9. What is the company's distinctive competence?
10. What has been achieved to date?
11. What changes have been made in structure or ownership?
12. What are the current and projected sizes of the industry?
13. Does the company intend to become a publicly traded company or an acquisition candidate?



#### USING BIZPLANBUILDER

As indicated earlier in this chapter, *BizPlanBuilder: Strategic Business & Marketing Plan Software* provides a framework for writing a business plan. To assist you in answering some of the questions posed above, see Part 2 of *BizPlanBuilder*. These pages provide some guidance regarding the executive summary, the firm's objectives, and the present business situation—good starting points for writing your plan.



## Appendix A: A Sample Business Plan.

This appendix shows you a real business plan. Use this example to see how the pieces come together. Refer to it as you build your own plan—either as a class project, or later, when you are ready to go into business!

### Sample Business Plan

665

Appendix A

SiBoN  
Beverage Corporation  
P.O. Box 1927  
202 Simmons Way  
Jasper, Texas 75951-1927  
1-800-755-0000

Ph. 409-383-0000 Fax: 409-383-0000

#### EXECUTIVE SUMMARY

The "New Age" beverage market is the result of a spectacular boom in demand for drinks that have nutritional value, are made from environmentally safe ingredients, and use water that comes from deep, clear, clean springs free of chemicals and pollutants. SiBoN Beverage Corporation ("SiBoN") will produce and market a full line of sparkling fruit drinks, flavored waters, and sports drinks of the highest quality and purity. These drinks have taste appeal similar to that of soft drinks, while using the most healthful fruit juices, natural sugars, and the purest spring water—the hallmark of the New Age drink market.

New Age beverages are relatively new in the \$28 billion soft drink market, growing in sales from \$117 million (wholesale) in 1985 to over \$1 billion in 1993. The industry has grown tenfold in sales in less than two years, and demand has simply outpaced supply. The product is distinguished by rich natural fruit concentrates, spring waters, and all natural ingredients. A New Age drink is defined as a beverage that is perceived by consumers as (1) healthy, allowing consumers to feel good about themselves, and (2) a natural product, free of artificial ingredients, preservatives, and flavors.

SiBoN projects gross sales and earnings as follows:

	1994	1995	1996
Gross sales	\$1,446,731	\$5,082,302	\$8,095,825
Pre-tax income	(\$ 169,719)	\$ 307,146	\$1,261,782

SiBoN proposes to finance its building and land, located in the Jasper Industrial Park, with an acceptable Jasper Bank, using a financial guarantee from the Jasper Economic Development Corporation (JEDC). The following business plan details SiBoN's projected operations to support JEDC's guarantee.

### 3 DEVELOPING A SIMPLE BUSINESS PLAN: CLASSROOM LEARNING EXERCISES

This chapter demonstrates the process of writing a business plan. To some extent, the process has been simplified. We will provide an overview of a business plan but will avoid extensive elaboration of the subject matter. Our intention is to focus attention on the framework of the plan and the necessary information for putting it together.

As you later formulate personal plans for real ventures, you will need to amplify or modify this document as required by the characteristics of the specific venture. In most cases, for example, you should protect cash flow on a monthly basis. In the sample plan, cash flow is presented only by years. The additional material presented in Chapter 4 will help you decide how to expand your "real-world" plan and will also make you aware of additional resources for developing those plans.

#### AN EXAMPLE OF A SIMPLIFIED PLAN

In this section of the chapter, we present a scenario for a potential small business and a sample business plan developed on the basis of that scenario. In a subsequent section of this chapter, other assignment scenarios are described as a basis for you to gain "hands-on" experience in developing a plan. By examining the completed plan for the first scenario, you should learn how to develop a plan for the assignment scenarios. A set of worksheets is provided to assist you in this assignment.

The sample plan that follows will give you clues concerning what you need to cover when you develop your plan, but it will not provide all of the details. Since the business described in your plan will differ from the venture contemplated in this sample plan, you will need to develop sales estimates, cost figures, marketing approaches, and so on that are appropriate for that venture.

#### The Sample Plan Scenario (Report-Plus)

Vakarie Wright is a top honors English major attending Southern University, a small liberal arts college in southern Florida. She is the current president of the college journalism club, which is where she first met her dorm roommate, Cheri Perez. Cheri is a junior computer science major. Valerie and Cheri have become good friends and have been discussing the possibility of a new business venture. Both entrepreneurs were born and raised in rural areas and feel a need to supplement the meager financial support currently provided by their parents.

After weeks of brainstorming, they have agreed to start a venture called "Report-Plus" which would serve the needs of students and local businesses for typing and binding reports and term papers. Both young entrepreneurs recently attended a seminar entitled "How to Start a New Business." From this experience, they realize the need for a basic business plan document to help them better visualize their business venture and also to assist in obtaining some additional financial resources.

### Preparing the Business Plan: Resources for the Classroom

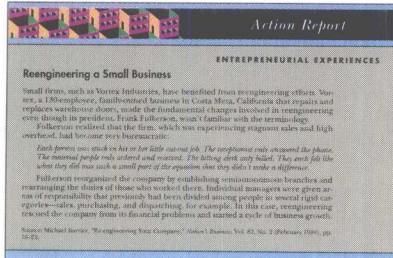
This brief supplement walks you through the preparation of a simple business plan with a practical, nuts-and-bolts approach. Later, this guide serves as a quick reference as you prepare the comprehensive plan for your own small business.



# What's **HOT** in Small Business Management Today

Chapter 19 Quality Management and the Operations Process

431



## Reengineering for Improved Productivity

In the early 1990s, Michael Hammer and James Champy described a method for the restructuring of corporations so that they might serve their customers effectively. In their bestselling book, *Reengineering the Corporation*, Hammer and Champy defined **reengineering** as "the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical, temporary measures of performance, such as cost, quality, service, and speed."

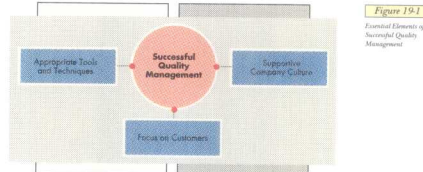
Reengineering is concerned with improving the way in which a business operates, whether that business is large or small. Hammer and Champy cite their early analysis on large corporations such as Wal-Mart, Taco Bell, and Atlantic, which redesigned their rigid bureaucratic structures to become more efficient. Firms that engage in reengineering seek fundamental improvements in the way they do the things they do in the way they do them. The key question is not why they do the things they do in the way they do them, but how they can do them better. Reengineering involves careful analysis of the basic processes that a firm uses in creating goods and services for customers.

Proponents of reengineering recommend evaluation of business operations at the most basic level. Reengineering alerts a firm's management to the need for making small improvements in an inherently weak or outmoded operating system by emphasizing thoroughness in the analysis of the firm's operations.

Reengineering's emphasis on basic processes is crucial and holds the key for substantial improvements in operations. Like effective quality control, it directs attention to activities that create value for the customer. Essentially, how the operations process can be better managed, even if it means eliminating traditional departmental lines and specialized job descriptions.

Chapter 19 Quality Management and the Operations Process

417



successful quality management efforts incorporate three elements—a focus on customers, a supportive company culture, and the use of appropriate tools and techniques, as shown in Figure 19.1.

## Customer Focus of Quality Management

A firm's quality management efforts should focus on the customers who purchase its products or services. Such a focus adds realism and vigor to quality programs. Without such a focus, the quest for quality easily degenerates into an aimless search for some abstract, elusive ideal.

**CUSTOMER EXPECTATIONS: THE DRIVING FORCE** Quality is ultimately determined by the extent to which a product or service satisfies customers' needs and expectations. Customers have quality expectations regarding both products (durability and attractiveness, for example) and services (speed and accuracy, for example). A customer is concerned with *product quality* when purchasing a camera or a boat of travel, for example. In other cases, the customer's primary concern is *service quality*—the way in which an automobile is repaired, for example. Frequently, a customer expects some combination of *product and service quality*—when buying a loaner car, a customer may be concerned with the performance of the loaner, the courtesy of the salesperson, the credit terms offered, and the terms of the warranty.

In thinking about customer quality requirements, therefore, managers must recognize that customers often have in mind specific standards that are relevant to the product or service being offered. Customer interviews yielded the following comments that illustrate the type of expectations customers have regarding these types of service businesses:

**Automobile Repair Customers:** Be Compliant ("Fix it right the first time!"). Explain Things ("Explain why I need the suggested repairs—provide an itemized list"). Be Helpful ("Don't treat me like I'm stupid").  
**Hotel Customers:** Provide a Clean Room ("Don't have a deep-pile carpet that can't be completely cleaned. . . . You can literally see germs down there"). Provide a Secure Room

Start here

In Chapter 22, we suggested that an owner needs to manage the firm's income statement carefully, which requires managing expenses relative to the firm's level of sales. Owners and managers must also effectively administer the firm's balance sheet, by managing both investments in working capital and long-term investments. In this chapter, we will consider the investment decisions of a firm. We will first discuss the management of working capital—that is, the management of short-term assets and liabilities—and then present the process for making decisions on long-term investments, such as those for equipment and buildings.

## THE WORKING-CAPITAL CYCLE

Ask the owner of a small company about financial management and you will hear about the joys and tribulations of managing cash, accounts receivable, inventories, and accounts payable. **Working-capital management**—managing short-term assets (current assets) and short-term sources of financing (current liabilities)—is extremely important to most small firms. A perfectly good business opportunity can be destroyed by ineffective management of a firm's short-term assets and liabilities.

*It's the lifeblood of business, the high-octane fluid that courses through the enterprise, kindling dreams, fueling growth and providing the energy needed to maintain a company's forward momentum. It is hard to come by, difficult to track, and has the maddening habit of leaking away just when it's needed most.*

*The substance in question is, of course, cash, also known as working capital. It is an obsession with every businessperson, from the fledgling entrepreneur who desperately needs it to pump start-up ideas, to the proprietor of a multi-million-dollar company who wants to expand production.*

Thus, the key issue in working-capital management is to avoid running out of cash. And understanding how to manage cash requires knowledge of the working-capital cycle.

**Net working capital** consists primarily of three assets—cash, accounts receivable, and inventories—and two sources of short-term debt—accounts payable and accruals.<sup>1</sup> A firm's **working-capital cycle** is the flow of resources through these accounts as part of the firm's day-to-day operations. The steps in a firm's working-capital cycle are as follows:

1. Purchase or produce inventory for sale, which increases accounts payable—assuming the purchase is a credit purchase—and increases inventories on hand.
2. a. Sell the inventory for cash, which increases cash, or  
b. Sell the inventory on credit, which increases accounts receivable.
3. a. Pay the accounts payable, which decreases accounts payable and decreases cash.  
b. Pay operating expenses and taxes, which decreases cash.

**working-capital cycle**  
the sum of a firm's current assets (cash, accounts receivable, and inventories) less current liabilities (accounts payable and accruals)

**working-capital cycle**  
the daily flow of resources through a firm's working-capital accounts

499

Reengineering

Customer Focus of Quality Management

Cash Flow Management





# A Special Emphasis on the Internet

## The Internet as a Selling Tool.

Surfing the Net. Everybody's doing it. That's why you, as a potential small business manager, need to know how to take advantage of the Internet to reach this growing potential market for your products. We'll help you do this.

## "Exploring the Web" Experiential Exercises.

The Internet is more than a sales tool. It offers a wealth of resources from all over the world to help you manage your business. "Exploring the Web" Experiential Exercises take you "surfing" to see the kinds of information out there for small businesses. You will browse Web sites of real small businesses. You will even investigate the site for your text!

### Chapter 21 Computer-Based Technology for Small Businesses

457

nario written by Michael Chorost, an owner of an Internet consulting firm. Chorost describes a typical day on the Internet as follows:



You sit down at your computer and log on to your Internet account. A pop-up informs you that you have E-mail (electronic mail) waiting. You select the message from your new business partner in Monterey. He wants your input on what to charge for local consulting fees. You create a price list last week, so you pull it up with your word processor and "cut-and-paste" the figures directly into your reply to him. For good measure, you send a copy of the message to your partner in Austin.

Another message is from a client in San Antonio. He's quite pleased with the software your firm designed for him but needs documentation in both Spanish and English. For a project like this, you need to find a professional translator who speaks both languages. American, asking if anyone knows of a good technical translator. Dozens, perhaps even hundreds, of people will see your question each day, so the chances are good that someone will give you a lead.

A third message is from a potential client in Houston, who wants more information on your products. You write a reply referring him to your company's "Web page," a document available to anyone with World Wide Web access. The World Wide Web is a vast worldwide collection of "pages" such as this.

Your Web page has your company's logo on it, with text describing your services. It has buttons that can be clicked to bring up, among other things, your catalog with prices for products, the answers to frequently asked questions, and sound producing yourself and inviting browsers to look around. At the top where browsers can type messages to you. Hundreds of people page since you designed it, and you've gotten a number of good

visitors in three cities today, and it's high-traffic work: you have been to your colleague in Monterey, posted a call for information and a potential client is a rich source of information on your company's services. You're still on your first cup of coffee, and a few minutes reading the new issue of the MARS National Journal by the Society of Mexican-American Scientists and Engineers, which you reach by typing <http://boonstons.com/AMES/homepage.html> in your browsing program. You only find you want to reach the page, since you reach it, you can even reach the page again with just a mouse click.

With the keyboard search capability of the Internet, browse information appearing under the caption "family business." Prepare a one-page report identifying the kinds of data available, and include references to at least two academic programs having home pages on the Web.

### Part 2 Seeking Entrepreneurial Opportunities

#### Exploring the

5. With the keyboard search capability of the Internet, browse information appearing under the caption "family business." Prepare a one-page report identifying the kinds of data available, and include references to at least two academic programs having home pages on the Web.

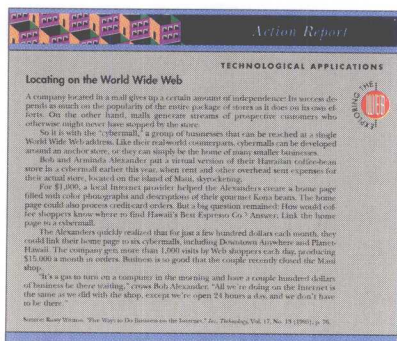
#### CASE 5 The Brown Family Business (p. 603)

This case presents the philosophy, criteria, and procedures adopted by one family to regulate work opportunities for family members in the family business.

Alternative Cases for Chapter 5: Case 2, "Construction Equipment Dealership," p. 595; Case 12, "Central Engineering," p. 636; Case 18, "Cibola Mortuary," p. 639; Case 25, "The Martin Company," p. 660.

### Chapter 10 Choosing the Location and Physical Facilities

209



**PERSONAL PREFERENCE** As a practical matter, many entrepreneurs consider only their home community as a location. Frequently, the possibility of locating elsewhere never enters their minds. Just because an individual has always lived in a particular town, however, does not automatically make the town a satisfactory business location.

Even so, locating a business locally for personal reasons is not necessarily illogical. In fact, there are certain advantages. From a personal standpoint, the entrepreneur generally appreciates and feels comfortable with the atmosphere of the home community, whether it is a small town or a large city. From a practical business standpoint, the entrepreneur can more easily establish credit. The hometown banker can be dealt with more confidently, and other businesspersons may be of great service in helping evaluate a given opportunity. If potential customers live mainly in the locality, the prospective entrepreneur probably has a better idea of their tastes and preferences than an outsider would have. Relatives and friends may be the entrepreneur's first customers and may help to advertise his or her products.

## Internet Action Reports.

Throughout the book special "Action Reports" devoted to Internet topics will show you some creative ways that small companies are taking advantage of this powerful communication tool. Maybe you can think of some new ways.





# Small Business in the Real World

2

## Chapter 1

### Entrepreneurs: The Energizers of Small Business

Carla Connor



*Spotlight on small business*



This chapter discusses entrepreneurs—those individuals who start and operate small businesses. The entrepreneurial process—starting a new business—can be scary, because entrepreneurs must assume risk. Carla Connor describes her feelings when she decided to open her own firm in South Florida:

*In November 1990, I was scared and desperate. Laid off for months from a sales job at a company that sold industrial safety equipment, and trying to sell my car to keep my head above water. I was sure of was that I no longer wanted to work for other hand, I was afraid to fail and wasn't entirely comfortable being in business on my own.*

Drawing on her corporate experience and using her home as a warehouse, she started C&B Industrial Safety, Inc. to sell industrial safety equipment. Although C&B was named for my two whippet dogs—sure people thought it stood for “Carla & Somebody.” The fact that I was a one-person company, that the back stored behind my couch, that I stored safety glasses in my dining room table doubled as the shipping department.

Despite such humble beginnings, C&B Industrial Safety four employees and more than \$700,000 in 1993 sales revenue illustrates the entrepreneurial process in the 1990s.

Source: Carla Connor, “Entrepreneurship: Personal Narrative,” *Nation's Business*, 31 (September 1994), p. 30.

### Spotlight on Small Business

502



Part 6 Financial Management in the Entrepreneurial Firm

### Action Report

#### ENTREPRENEURIAL EXPERIENCES

##### The Cash-Flow Quagmire

Managing working capital, especially cash flow, is a critically important task in most small firms. Mary Barthelemy, cofounder and president of Racing Saddlery, a \$5 million company, learned to manage cash flow the hard way. When the firm started in 1984, its management systems were simple. Rapid growth instantly masked the working-capital problems that were developing. Barthelemy explains her response when she was confronted by cash-flow trouble:

*I took a sabbatical leave and spent a Saturday morning at, every line, the way I used to. I wanted to know up. We had a small yard. We had all our goods. All our employees had worked their hearts out, and then had done everything we had asked them to do. And we had fallen off the cliff.*

*We wanted to raise money and quickly. And while I was looking outside, the money was on the inside. [I] hired an outside consultant, [and] he asked me, “Why are you trying to raise money?” “My wife,” I replied. “She, you don’t,” he said. “Why don’t you collect what’s owed you?”*

*Some of us thought to look where we should have gone first: accounts receivable. It might be that thousands of dollars were late, and we had had the time to collect them. So we brought back a former employer whose specialty was collecting, and she went to work. We had some money to breathe that I could have had a deal together.*

Source: Mary Barthelemy, “The Cash-Flow Quagmire,” *Inc.*, Vol. 16, No. 10 (October 1994), pp. 52, 53.

#### Examples of Working-Capital Management

Figure 25.3 offers two examples of working-capital management by companies with contrasting working-capital cycles. Pokes, Inc. and Quick Turn Company. On August 15, both companies buy inventory that they receive on August 31, but the suppliers each have different terms. Pokes, Inc. must pay its supplier for the inventory on September 30, but eventually receiving it on October 15. It collects from its customers on November 30. As you can see, the company must pay for the inventory prior to collecting from its customers. The company's managers must find investment in inventories and accounts receivable, or they cash-flow problems. Furthermore, although increased sales and profits, they will compound the cash-flow problem.

Now consider Quick Turn Company's working-capital position of Figure 25.3. Compared to Pokes, Inc., Quick Turn's most purchases (October 31), it has sold its product (September 30) to its customers (October 31). Thus, there is no cash conversion supplier is eventually financing Quick Turn's working-capital.

To gain an even better understanding of the working-capital cycle at Pokes, Inc. in addition to the working-capital cycle of Figure 25.3, consider the following information about the firm.

### Action Report: Technological Applications

#### Chapter 8 Analyzing the Market and Formulating the Marketing Plan

169

### Action Report

#### TECHNOLOGICAL APPLICATIONS

##### Surveys Pay Dividends

Small businesses sometimes avoid customer surveying because they are afraid that direct contact with angry customers will have a negative impact on goodwill for the firm. Computer technology applied to surveying is helping lessen this concern. One example is an electronic desktop device called the “Panel of View” screen box. This device is about the size of a laptop computer and has two rows of large keyboard buttons. When a respondent presses a button, the display asks questions and the response is entered via the keyboard.

Small firms exhibiting a trade show have used the device successfully, according to Bill Lipscomb, a marketing consultant from Georgetown, Texas. With this technology, Lipscomb says, “We’re able to ask questions, get tabulated answers, graphs, and reports quickly.” This device provides feedback from people viewing a firm's display booth with minimal effort on their part.

Source: Philip Adams, “How Your Booth Boasts with the Latest Tech,” *Marketing*, Vol. 3, No. 1 (January/February 1995), p. 34.



- Ask questions that relate to the decision under consideration. An “interesting” question may not be relevant. Assume an answer to each question, and then ask yourself how you would use that information. This provides a good test of relevance.
- Select a form of question that is appropriate for the subject and the conditions of the survey. Open-ended and multiple-choice questions are two popular forms.
- Carefully consider the order of the questions. The wrong sequence can cause biases in answers to later questions.
- Ask the more sensitive questions near the end of the questionnaire. Age and income, for example, are usually sensitive subjects.
- Carefully select the words of each question. They should be as simple, clear, and objective as possible.
- Pretest the questionnaire by administering it to a small sample of respondents representative of the group to be surveyed.

Refer to the questionnaire shown in Figure 8-3 on page 166 which was developed by a car wash owner. This survey instrument illustrates how the above considerations can be incorporated into a questionnaire. Note the use of both multiple-choice and open-ended questions. Responses to the open-ended question were particularly useful for this firm.

**INTERPRET THE DATA** After the necessary data have been accumulated, they should be transformed into usable information. Large quantities of data are only facts without a purpose. They must be organized and molded into meaningful information. Numerous methods of summarizing and simplifying information for users include tables, charts, and other graphic methods. Descriptive statistics such as the mean, mode, and median are most helpful during this step in the research procedure. Inexpensive personal computer software is now available to perform statistical

### Action Report: Entrepreneurial Experiences



## Action Report: Quality Goals

418

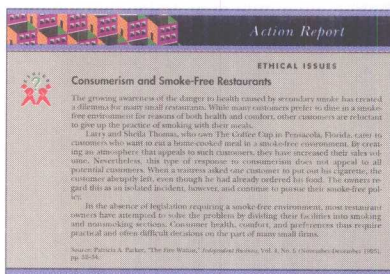
Part 5 Managing Small Business Operations



## Action Report: Ethical Issues

560

Part 7 Social and Legal Environment



"Good balls and purple on deer"? That's like a Guest ("It is almost like they're looking me over to decide whether they're going to let me have a room"). Keep Your Promises ("They and the room would be ready, but it wasn't at the promised time").

**Equipment Repair Customers.** Show My Sense of Urgency ("Speed of response is important. One time I had to buy a second piece of equipment because of the huge down time with the first piece"). Be Complicated ("Sometimes I'm quoting stuff from their instruction manuals to their own people, and they don't even know what it means"). Be Prepared ("Have all the parts ready").

A genuine concern for customer needs and customer satisfaction is a powerful force that energizes the total quality management effort of a business. If customer satisfaction is treated merely as a means of increasing profits, it tends to lose its impact. When the customer becomes the focal point in quality efforts, however, real quality improvement occurs, and profits tend to grow as a result.

**STIMULATING CUSTOMERS.** Alternative financing can often provide information about customer satisfaction. Employees having direct contact with customers can give the eyes and ears of the business in evaluating quality levels and customer needs. Unfortunately, many managers are oblivious to the often subtle feedback from customers. Preoccupied with operating details, such managers do not listen, yet alone solicit, customers' opinions. Employees having direct contact with customers—servers in a restaurant, for example—are seldom trained or expected to obtain information about customers' quality expectations.

The marketing research methods of observation, interviews, and customer surveys, as described in Chapter 8, can be used to investigate customers' views re-

## Action Report: Global Opportunities

Chapter 16 Distribution Channels and Global Markets

359



### Researching a Foreign Market

Foreign-market research should begin by exhausting as many secondary sources of information as possible. The U.S. government offers an array of publications on how to locate and exploit global marketing opportunities. The Commerce Department's International Trade Administration (ITA) is the primary U.S. government agency responsible for assisting exporters. One of its more helpful publications, *U.S. Global Trade Outlook 1995-2000*, provides a global outlook. Figure 16-1 describes several ITA services.

One excellent publication about global marketing prepared by the federal government is *A Basic Guide to Exporting*, which is available from the Superintendent of Documents, U.S. Government Printing Office. Also available from the same source is the *Exporter's Guide to Federal Resources for Small Business*, which provides the reader with an overview of major federal export programs, as well as contact points for further information and help in finding expertise in utilizing these programs. The

### Kind of Ethical Issues in Small Firms

Ethical issues are those practices and policies that involve questions of right and wrong. Such questions go far beyond what is legal or illegal. Many small business relationships call for decisions regarding honesty, fairness, and respect.

Only a naive person would argue that small business is pure in terms of ethical conduct. In fact, there is widespread recognition of unethical and even illegal small business activities. While the extent of unethical conduct cannot be measured, a need for improvement in small, as well as large, businesses exists.

In giving example of poor ethics practiced by some small businesses is fraud reporting of income and expenses for income tax purposes. This unethical act includes skimming—that is, concealing some income—as well as inappropriate certain business expenses. We do not mean to imply that all or even small firms engage in such practices. However, tax evasion does occur within firms, and the practice is sufficiently widespread to be recognized as a problem.

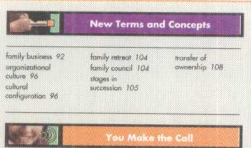
In Internal Revenue Service regularly uncovers cases of income tax fraud. For example, the John E. Long family, the largest promoter of country folk art shows in the United States, was forced to pay millions in back taxes, and four members of the family given prison terms for tax law violations. The Longs did not record the tax collected for admission. Instead, they deposited into corporate accounts checks received from such sources as renting booths and publishing a magazine. Informants for the Longs, the IRS discovered 2,000 unreported deposits members of the family had made into 37 different accounts. The Longs had

## Icons.

These same topics also appear within the chapter narrative. Icons identical to those on the Action Reports mark quality, ethics, global, and technological discussions for you.



# Learn by Doing: The Practice of



## New Terms and Concepts

family business 92	family interest 104	transfer of ownership 108
organizational culture 105	family council 104	
stages in succession 105		
conflict resolution 96		

## You Make the Call

### Situation 1

The three Dorsett brothers are barely speaking to each other. "Phone for you" is about all they have to say.

It hasn't always been like this. For more than 30 years, Tom, Harry, and Bob Dorsett have run the successful manufacturing business founded by their father. For most of that time, they have gotten along rather well. They've had their differences and arguments, but important decisions were resolved and a consensus was reached.

Each brother has two children in the business. Tom's oldest son manages the plant. Harry's oldest daughter keeps the books, and Bob's oldest son is a rising star in sales. The younger children are learning the ropes in lower-level positions.

The problem? Compensation. Each brother feels that his own children are underpaid and that some of his nieces and nephews are overpaid. After violent arguments, the Dorsett brothers just quit talking while each continued to sulk.

The six younger-generation cousins are still on speaking terms, however. Despite the differences that exist among them, they manage to get along with one another. They range in age from 41 down to 22.

The business is in a slump but not yet in danger. Because the brothers aren't talking, important business decisions are being postponed.

The family is stuck. What can be done?

Source: "Singer Owns Henry Brothers," *Nation's Business*, Vol. 26, No. 10 (October 1990), p. 62. Reprinted by permission, *Nation's Business*, October 1990. Copyright 1990, U.S. Chamber of Commerce.

Question 1 Why do you think the cousins get along better than their fathers?

Question 2 How might this conflict over compensation be resolved?

Continued on next page

The daughter would receive all non-business assets plus an instrument of debt from her brother, intended to balance the monetary values. This plan was not only fair but also workable in terms of the operation and management of the firm.

Planning and discussing the transfer of ownership is not easy, but such action is recommended. Over a period of time, the owner must reflect seriously on family values and interests as they relate to the future of the firm. The plan for transfer of ownership can then be fine-tuned and modified as necessary when it is discussed with the children or other potential heirs.

## DISCUSSION QUESTIONS

1. A computer software company began operation with a three-member management team whose skills were focused in the areas of engineering, finance, and general business. Is this a family business? What might cause it to be classified as a family business or to become a family business?
2. Suppose that you, as founder of a business, have a vacant sales manager position. You realize that sales may suffer somewhat if you promote your son from sales representative to sales manager. However, you would like to see your son make some progress and earn a higher salary to support his wife and young daughter. How would you go about making this decision? Would you promote your son?
3. What benefits result from family involvement in a business?
4. Why does a first-generation family business tend to have a patriarchal business pattern and a patriarchal family pattern?
5. As a recent graduate in business administration, you are headed back to the family business. As a

To be a successful small business manager, you need practice. Without it, you have a book that whets your appetite but doesn't bring you any closer to the table. In addition to offering practical information ready to put to use, each chapter concludes with realistic application exercises and references that send you to the chapter-specific cases at the end of the text.

## You Make the Call.

These scenarios put you in the place of a small business person and ask what you would do in the same situation.

## Experiential Exercises.

Designed to connect "book learning" to the real world, these exercises often send you into your community to gather information and ideas from small business managers. They also encourage you to consider your own experiences in the context of chapter concepts.

## Case References

10. Explain the basic concept underlying the calculation of an economic order quantity.

## EXPERIENTIAL EXERCISES

1. Interview an owner-manager regarding the purchasing procedures used in her or his business. Compare these procedures with the steps in the purchasing cycle outlined in this chapter.
2. Outline in detail the steps you took when making an important purchase recently—a purchase of more than \$100, if possible. Compare these steps with the steps identified in this chapter as making up the purchasing cycle, and explain any differences.
3. Using the ABC inventory analysis method, classify some of your personal possessions into three categories. Include at least two items in each category.
4. Interview the manager of a book-store or the type of inventory control system used in the store. Write a report that includes an explanation of the methods used to avoid buildup of excessive inventory and any use made of inventory turnover ratios (ratios that relate the dollar value of inventory with the volume of sales).

## Exploring the Web

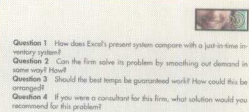
5. Consult Dun & Bradstreet's home page on the Web (<http://www.dnb.com>). Prepare a one-page report summarizing and evaluating the type of information offered there concerning the management of supplier relationships.

## CASE 20

*Mother's Heating and Air Conditioning* (p. 644)

This case examines the difficulties experienced by a small heating and air-conditioning firm in dealing with a major supplier.

Alternative Cases for Chapter 20: Case 23, "Barton Sales and Service," p. 653; Case 26, "Diaper Dan," p. 662



Question 1 How does Exalt's present system compare with a just-in-time inventory system?

Question 2 Can the firm solve its problem by smoothing out demand in some way? How?

Question 3 Should the best temps be guaranteed? How could this be arranged?

Question 4 If you were a consultant for this firm, what solution would you recommend for this problem?

**Situation 3** The owner of a small food products company was confronted with an inventory control problem involving differences of opinion among his subordinates. His accountant, with the concurrence of his general manager, had decided to "put some teeth" into the inventory control system by deducting inventory shortages from the pay of route drivers who distributed the firm's products to stores in their respective territories. Each driver was considered responsible for the inventory on his or her truck.

When the first "short" paychecks arrived, drivers were angry. Sharing their concerns, their immediate supervisor, the regional manager, laid out to the general manager and, getting no satisfaction there, appealed to the owner. The regional manager argued that (1) there was no question about the honesty of the drivers; (2) he had personally created the inventory control system that is being used; (3) the system is extremely complicated and susceptible to clerical mistakes by the driver and by the office; (4) the system had never been studied by the general manager or the accountant; and (5) it is actually wrong to make deductions from the small salaries of lower drivers for simple record-keeping errors.

**Question 1** What is wrong, if anything, with the general manager's approach to making sure that drivers do not cheat or act dishonestly? Is some method of enforcement necessary to ensure the careful adherence to the inventory control system?

**Question 2** Is it wrong to deduct shortages from drivers' paychecks when the inventory records document the shortages?

**Question 3** How should the owner resolve this dispute?



# Small Business Management

## Cases.

The 26 short cases located at the end of the text are designed for specific chapters. End-of-chapter references briefly describe the main case for that chapter and offer alternative selections as well. Based on actual experiences of small business managers, these cases give you practice in applying chapter concepts.

642

## Case 19



### Douglas Electrical Supply, Inc.

Conflicting Messages in TQM

Jim Easinger is a management consultant and training specialist from St. Louis who specializes in continuous process improvement and total quality management. Each month, he goes to Springfield, Illinois and provides three days of training to employees of a privately owned electrical wholesaler-distributor, Douglas Electrical Supply, Inc.

Most of the employees attending this fourth session are from the Springfield branch and have either gone back to the office or to their favorite restaurants during the lunch break. Jim has noticed that one of the class members from out of town is alone in the coffee shop of the hotel where the training sessions are conducted, and he has invited the young man to join him for lunch. The nervousness of his young companion is apparent to Jim, and he decides to ask a few questions.

Jim: Tony, you seem a little distracted; is there something wrong with your lunch?

Tony: Oh, it's not that, Jim. I . . . I'm having a problem at work, and it kind of relates to the training you are doing with us.

Jim: Really? Tell me about it.

Tony: Well, as you might know, I drive a van for the company, delivering electrical products and materials to our customers.

Jim: You work at the Quincy branch, right?

Tony: Yes, I drive about 250 miles a day all over western Illinois, making deliveries.

Jim: I see.

Tony: About seven weeks ago, I was making a big delivery at Western Illinois University in Ma-

comb. A lady pulled out in front of me, and I had to brake hard and swerve to miss her!

Jim: You didn't hit her?

Tony: Not! She just drove off. . . . I don't think she ever saw me. Anyway, I had a full load of boxes, pipe, conduit, and a big reel of wire. The load shifted and came crashing forward. Some of it hit me hard in the back and on the back of my head.

Jim: Were you injured?

Tony: I'm not sure if I was ever unconscious, but I was stunned. Some people stopped and helped me get out of the van. I was really dizzy and couldn't get my bearings. Eventually, they called an ambulance. The paramedics took me to the hospital, and the doctors kept me for two days while they ran some tests.

Jim: Did you have a concussion?

Tony: Yes, I had some cuts and a slight concussion. My wife was really upset, and she made me stay home for the rest of the week. We have two little kids under four, and she wants me to quit and get a safe job.

Jim: She wants you to quit?

Tony: Yes! Steiner or later, all of the drivers get hit or have close calls. When you have a full load, those loads can shift and do a lot of damage. When I get in the van lately, especially when I have pipe or big reels of wire, I'm frightened. My wife is scared for me. I don't want to be killed or paralyzed, or something!

Source: This case was prepared by John F. Schmitt of Texas A&M University. Reprinted with permission.

634

## Case 16



### NovaSoft Systems Inc.

Not So Innocent Abroad

With the hopes they'd pledged for seed capital on the line and the seed money running thin, Surry's "Ray" Gilv and Robin Hillyard, entrepreneurs of a software startup outside Boston, planned to test a business basic: Sales generate cash. However, another business basic—a stock-market crash—intervened. NovaSoft Systems Inc. was down to its last \$250 when the panic of 1987 hit, reducing its chances of attracting risk capital to nil.

CEO Gilv and chief technical officer Hillyard didn't dare begin marketing in the United States without resources. So they decided to begin marketing overseas without resources. As novice owners of a nearly broke company, they nonetheless had an asset no one abroad did—the latest technology in computer-based engineering document management systems. They would prove their product could sell and then ride that momentum back to the United States.

"When we market in the United States," Gilv notes, "you have to advertise and do PR and attend large trade shows—all of which cost money. Then you have to build a sales organization, but salespeople don't become 100 percent productive for maybe nine months, and that's also a cost. The usual routine is to make an investment, then wait for a return. But if you don't have the cash to make that investment, obviously, you don't have a choice." Accordingly, he invested what remained in NovaSoft's treasury in a bet in Europe.

The strategy called for establishing distributorship agreements with, Gilv says, "solid, well-

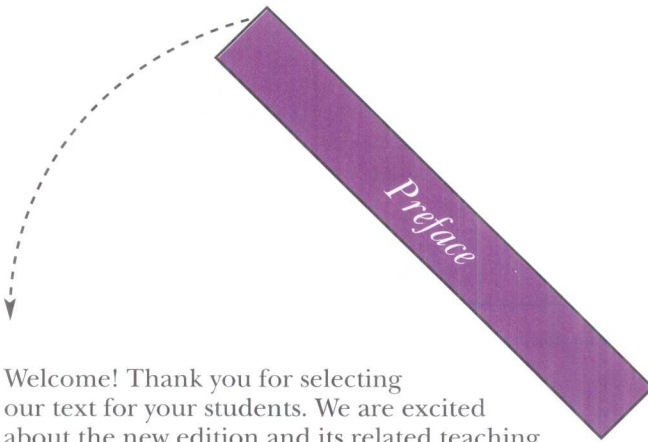
staffed companies that already had sales forces and support organizations in place and were dealing with the kind of companies that would be our target customers." Gilv began in Rome. "Italians would be open-minded and spontaneous," the Turkish-born Gilv had theorized.

His instincts were right. In July 1988, hardly two months after NovaSoft had begun operations, he closed a deal with Italcad, a large Italian distributor of computer-aided design and computer-aided manufacturing equipment. It wasn't a hard sell, Gilv says. The company even gave him a quick \$100,000 up front. "It was supplying other products and could anticipate the appeal of users within its customer base. Any kind of agreement—even a royalty advance—represented little risk to it; essentially, it had already done the market research." Within weeks, Italcad had placed NovaSoft's systems with Fiat.

Boosted by that debut, Gilv convinced Hewlett Packard that running his software would show off the manufacturer's hardware to good advantage. While Gilv was presenting a NovaSoft program at a Hewlett-Packard booth at a large trade exhibition in Germany, some executives from the international conglomerate Siemens, based in Munich, happened by. The company arranged to send a representative to NovaSoft's U.S. facilities to evaluate the technology. "That," Gilv recalls, "was unswerving. We

Source: Robert A. Merton, "Not So Innocent Abroad," *Inc.*, Vol. 15, No. 9 (September 1993), pp. 126-131. Reprinted with permission. An adaptation (September 1993). Copyright 1993 by South-Western Group, Inc., 30 Connecticut Street, Boston, MA 02110.





Welcome! Thank you for selecting our text for your students. We are excited about the new edition and its related teaching tools. As you well know, many students at some point in their lives will own or work for a small business. Therefore, this field of study is relevant to more individuals each year, making our role as educators both challenging and productive. *Our goal is to provide a teaching package that will help you help your students.*

For more than three decades, *Small Business Management: An Entrepreneurial Emphasis* has been the most widely used text in its field. In the tradition of earlier editions, we have prepared a tenth edition that incorporates current theory and practice related to starting and managing small firms. Our diverse academic backgrounds in business management, marketing, and finance have enabled us to provide well-balanced coverage of small business issues. In preparing this book, we kept three primary goals in mind. First, we sought to offer a complete treatment of each topic. Second, we gave readability a high priority by continuing to write in the same clear and concise style that students have appreciated over the last nine editions. Finally, we included numerous real-world examples to help students understand how to apply the concepts.

Ultimately, however, it is your evaluation that is important to us. We want to know what you think. Please contact any of us as questions or needs arise. (Our telephone numbers, fax numbers, and E-mail addresses are provided at the end of this preface.) We view ourselves as partners with you in this venture, and we wish to be sensitive to your wishes and desires whenever possible.

## Innovations for You and Your Students

As we prepared the tenth edition, we tried to include the latest teaching tools to help you plan your course and the most current concepts and real-world examples to help you keep your course up to date. A description of some of these new features follows.

- **Integrated Learning System.** In this edition, we structured the text and supplements around the learning objectives, to create an integrated learning system. The numbered objectives in each Looking Ahead section also appear in the margins throughout the chapter. In the Looking Back section at the end of the

**New!**