

EFFECTIVE SMALL BUSINESS MANAGEMENT

An Entrepreneurial Approach

SEVENTH EDITION



NORMAN M. SCARBOROUGH
THOMAS W. ZIMMERER

Effective Small Business Management

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In memory of Lannie H. Thornley

To Louise T. Scarborough, Mildred Myers,
and John Scarborough. Your love, support,
and encouragement have made all the difference.

N.M.S.

To my wife, Linda, whose many hours of work on this
project helped make the book a reality, and to Jesse and Minnie
Williams, whose simple life and love of learning will inspire
many generations to come.

T.W.Z.

The ability to learn and translate that learning into action
is the ultimate competitive advantage.

—Jack Welch, Former CEO of General Electric

PREFACE

The field of entrepreneurship is experiencing incredible rates of growth, not only in the United States but across the world as well. People of all ages, backgrounds, and stations of life are launching businesses of their own and, in the process, are reshaping the global economy. Entrepreneurs are discovering that the natural advantages resulting from their size—speed, flexibility, sensitivity to customers' needs, creativity, a spirit of innovation, and many others—give them the ability to compete successfully with companies many times their size and with budgets to match. As large companies struggle to survive wrenching changes in competitive forces by downsizing, merging, and restructuring, the unseen army of small businesses continues to flourish and to carry the nation's economy on its back. Entrepreneurs willing to assume the risks of the market to gain its rewards are at the heart of capitalism. These men and women, with their bold entrepreneurial spirits, have led our nation into prosperity throughout history. Entrepreneurship is a significant force throughout the world. We need look no farther than those nations that are throwing off decades of control and central planning in favor of capitalism to see where the entrepreneurial process begins. In every case, it is the entrepreneurs creating small companies that lead those nations out of the jungles of economic oppression to higher standards of living and hope for the future.

In the United States, we can be thankful that the small business sector is strong and thriving. Small companies deliver the goods and services we use every day, provide jobs and training for millions of workers, and lead the way in creating the products and services that will make our lives easier and more enjoyable in the future. Small businesses were responsible for introducing to the world the elevator, the airplane, FM radio, the zipper, the personal computer, and a host of other marvelous inventions. Only the imaginations of the next generation of entrepreneurs of which you may be a part can see what other fantastic products and services lie in our future! Whatever those ideas may be, we can be sure of one thing: Small businesses will be there to deliver them.

The purpose of this book is to excite you about the possibilities, the challenges, and the rewards of becoming an entrepreneur and to provide the tools you will need to be successful if you choose the path of the entrepreneur. It is not an easy road to follow, but the rewards—both tangible and intangible—are well worth the risks. Not only may you be rewarded financially for your business idea, but like entrepreneurs the world over, you will be able to work at something you love doing!

This edition of *Effective Small Business Management: An Entrepreneurial Approach* brings to you the material you will need to launch and manage a small business successfully in the hotly competitive environment of the twenty-first century. In writing this edition, we have worked hard to provide you with plenty of practical, "hands-on" tools and techniques to make your business venture a success. Many people launch businesses every year, but only some of them succeed. This book teaches you the *right* way to launch and manage a small business with the staying power to succeed and grow. Perhaps one day we'll be writing about *your* success story in the pages of this book!

Text Features

Effective Small Business Management, Seventh Edition, contains many unique features that make it the ideal book for entrepreneurs who are serious about launching their businesses the right way. These features include the following:

- *A complete chapter on e-commerce and thorough coverage of the World Wide Web (WWW) as a business tool.* One of the most important business tools in existence today is the World Wide Web. Still in its infancy, it is already proving to be a powerful force in reshaping the face of business. *Effective Small Business Management*, Seventh Edition, offers the most comprehensive coverage of e-commerce of any book in the market. In these pages, you'll find many references to the Web, ideas for using the Web as a business tool, and examples of entrepreneurs who have discovered the power of the Web.
- *Text material that is relevant, practical, and key to entrepreneurial success.* You'll also find it easy and interesting to read. This edition offers streamlined coverage of the topics you'll need to know about when you launch your own business without sacrificing the quality or the content of earlier editions.
- *An impressive Web site that both professors and students will find extremely useful.* Locate the Web site for *Effective Small Business Management*, Seventh Edition, at: <http://www.prenhall.com/scarborough>

The Web site contains features for each chapter that are designed to get you onto the Web to research topics, solve problems, and engage in a variety of other activities that will make you a more "Web-wise" entrepreneur. This site includes a multitude of useful features, including a Business Plan Evaluation Scale, a "Before You Start" checklist, a list of hundreds of links to useful small business sites (organized by chapter). The World Wide Web Activities take students to the World Wide Web where they search for data, research relevant topics, and experience firsthand the power of the Web as a practical tool that will influence the way companies do business in the twenty-first century. The site also includes for students sample multiple-choice questions that help them determine how well they have mastered the subject matter and prepare for tests. Students also can find a sample business plan to use as a guideline in preparing their own plans. For professors, the site contains a full set of PowerPoint slides (prepared by one of the authors and professionally designed for teaching), as well as other support material for their courses.

- *Lots of examples.* Examples help people learn more effectively and efficiently. That's why you'll find plenty of examples in this edition, and they're set off in italics. These illustrations tell how entrepreneurs are using the concepts covered in the text to make their businesses more successful. These examples are also a great way to stimulate creativity.
- *Emphasis on building and using a business plan.* Chapter 6 is devoted to building a business plan, and features in many other chapters reinforce the business planning process.
- *A sample business plan for a business.* Many courses in entrepreneurship and small business management require students to write business plans. Students of entrepreneurship find it helpful to have a model to guide them as they build their own plans, and they can access a sample plan from our Web site. The plan is one written for an actual business start-up called StudentFarm.com, a business that links students to business owners through special projects in which students become consultants and problem solvers.
- *Features in every chapter that help students master the material more readily.* Learning objectives introduce each chapter, and they appear in the text margins at the

appropriate places to keep students' attention focused on what they are learning. Chapter summaries are organized by learning objectives as well. Experiential exercises entitled "Step into the Real World" invite students to learn about the exciting world of entrepreneurship firsthand by giving them interesting assignments that enable them to interact with practicing entrepreneurs.

- *Boxed features in every chapter that follow two important themes:*
 - "In the Footsteps of an Entrepreneur," which offer in-depth, interesting examples of entrepreneurs who are using the concepts covered in the text and which reinforce the learning objectives.
 - "Gaining the Competitive Edge," a "hands-on, how-to" feature designed to offer practical advice on a particular topic that students can use to develop a competitive edge for their businesses.
- Each feature presents thought-provoking issues that will produce lively class discussions and enhance students' learning experiences by asking them to (1) identify, (2) analyze, and (3) evaluate key issues related to entrepreneurship.
- *Updated coverage of important topics such as:*
 - E-commerce
 - Strategic management
 - Guerrilla marketing techniques
 - Finding sources of financing, both equity and debt
 - Conducting business in global markets

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BRIEF CONTENTS

SECTION I: THE CHALLENGE OF ENTREPRENEURSHIP	1
Chapter 1 Entrepreneurs: The Driving Force Behind Small Business	1
SECTION II: BUILDING THE BUSINESS PLAN: BEGINNING CONSIDERATIONS	36
Chapter 2 Strategic Management and the Entrepreneur	36
Chapter 3 Choosing a Form of Ownership	65
Chapter 4 Franchising and the Entrepreneur	92
Chapter 5 Buying an Existing Business	121
SECTION III: BUILDING A BUSINESS PLAN: MARKETING AND FINANCIAL MATTERS	157
Chapter 6 Crafting a Winning Business Plan	157
Chapter 7 Building a Guerrilla Marketing Plan	185
Chapter 8 Creating a Solid Financial Plan	219
Chapter 9 Managing Cash Flow	255
SECTION IV: SMALL BUSINESS MARKETING STRATEGIES	287
Chapter 10 Pricing and Credit Strategies	287
Chapter 11 Creative Use of Advertising and Promotion	312
Chapter 12 Global Marketing Strategies for Entrepreneurs	345
Chapter 13 E-Commerce and Entrepreneurship	374
SECTION V: PUTTING THE BUSINESS PLAN TO WORK: SOURCES OF FUNDS	407
Chapter 14 Sources of Equity Financing	407
Chapter 15 Sources of Debt Financing	437
SECTION VI: LOCATION AND LAYOUT	467
Chapter 16 Location, Layout, and Physical Facilities	467

**SECTION VII: MANAGING A SMALL BUSINESS: TECHNIQUES
FOR ENHANCING PROFITABILITY 509**

Chapter 17 Purchasing, Quality Management, and Vendor Analysis 509

Chapter 18 Managing Inventory 546

**SECTION VIII: MANAGING PEOPLE: A COMPANY'S MOST
VALUABLE RESOURCE 578**

Chapter 19 Staffing and Leading a Growing Company 578

**SECTION IX: LEGAL ASPECTS OF SMALL BUSINESS:
SUCCESSION, ETHICS, AND GOVERNMENT
REGULATION 614**

Chapter 20 Management Succession and Risk Management Strategies
in the Family Business 614

Chapter 21 Ethics, Social Responsibility, and the Entrepreneur 649

Chapter 22 The Legal Environment: Business Law and Government Regulation 681

Index 713

CONTENTS

Preface xix

SECTION I: THE CHALLENGE OF ENTREPRENEURSHIP 1

Chapter 1 Entrepreneurs: The Driving Force Behind Small Business 1

What Is an Entrepreneur?	3
The Benefits of Owning a Small Business	9
The Potential Drawbacks of Entrepreneurship	11
Why the Boom: The Fuel Feeding the Entrepreneurial Fire	14
The Cultural Diversity of Entrepreneurship	16
The Contributions of Small Businesses	21
The Ten Deadly Mistakes of Entrepreneurship	23
Putting Failure into Perspective	27
How to Avoid the Pitfalls	27
Chapter Summary	31
Discussion Questions	32
Step into the Real World	32
Take It to the Net	33
Endnotes	33

SECTION II: BUILDING THE BUSINESS PLAN: BEGINNING CONSIDERATIONS 36

Chapter 2 Strategic Management and the Entrepreneur 36

Building a Competitive Advantage	38
The Strategic Management Process	40
<i>Step 1: Develop a Clear Vision and Translate It into a Meaningful Mission Statement</i>	40
<i>Step 2: Assess the Company's Strengths and Weaknesses</i>	42
<i>Step 3: Scan the Environment for Significant Opportunities and Threats Facing the Business</i>	43
<i>Step 4: Identify the Key Factors for Success in the Business</i>	44
<i>Step 5: Analyze the Competition</i>	47
<i>Step 6: Create Company Goals and Objectives</i>	50
<i>Step 7: Formulate Strategic Options and Select the Appropriate Strategies</i>	51
<i>Step 8: Translate Strategic Plans into Action Plans</i>	57
<i>Step 9: Establish Accurate Controls</i>	58
Conclusion	60
Chapter Summary	61
Discussion Questions	62
Step into the Real World	62
Take It to the Net	63
Endnotes	63

Chapter 3	Choosing a Form of Ownership	65
The Sole Proprietorship	67	
<i>Advantages of a Sole Proprietorship</i>	67	
<i>Disadvantages of a Sole Proprietorship</i>	70	
The Partnership	73	
<i>The Uniform Partnership Act</i>	74	
<i>Advantages of the Partnership</i>	74	
<i>Disadvantages of the Partnership</i>	76	
<i>Dissolution and Termination of a Partnership</i>	77	
<i>Limited Partnerships</i>	78	
<i>Master Limited Partnerships</i>	78	
<i>Limited Liability Partnerships</i>	79	
The Corporation	79	
<i>Requirements for Incorporation</i>	80	
<i>Advantages of the Corporation</i>	81	
<i>Disadvantages of the Corporation</i>	83	
<i>The Professional Corporation</i>	84	
Alternative Forms of Ownership	84	
<i>The S Corporation</i>	84	
<i>The Limited Liability Company (LLC)</i>	86	
<i>The Joint Venture</i>	89	
Summary of the Major Forms of Ownership	89	
Chapter Summary	89	
Discussion Questions	90	
Step into the Real World	90	
Take It to the Net	91	
Endnotes	91	
Chapter 4	Franchising and the Entrepreneur	92
What Is Franchising?	93	
Types of Franchising	94	
The Benefits of Buying a Franchise	94	
Drawbacks of Buying a Franchise	100	
Franchising and the Law	103	
How to Buy a Franchise	106	
Franchise Contracts	110	
Trends in Franchising	113	
Conclusion	117	
Chapter Summary	118	
Discussion Questions	118	
Step into the Real World	119	
Take It to the Net	119	
Endnotes	119	
Chapter 5	Buying an Existing Business	121
Buying an Existing Business	122	
<i>Advantages of Buying an Existing Business</i>	122	
<i>Disadvantages of Buying an Existing Business</i>	124	

How to Buy a Business	126
<i>Self-Analysis of Our Skills, Abilities, and Interests</i>	127
<i>Develop a List of Criteria</i>	127
<i>Prepare a List of Potential Candidates</i>	127
<i>Investigate and Evaluate the Most Likely Acquisition Candidates</i>	128
<i>Negotiate the Deal</i>	129
<i>Explore Financing Options</i>	129
<i>Ensure a Smooth Transition</i>	129
Evaluating an Existing Business: Uncovering the Truth	131
<i>Why Does the Owner Want to Sell?</i>	131
<i>What Is the Physical Condition of the Business?</i>	132
<i>What Is the Potential for the Company's Products or Services?</i>	134
<i>What Legal Aspects Are Important?</i>	135
<i>Is the Business Financially Sound?</i>	137
Methods for Determining the Value of a Business	138
<i>Balance Sheet Method: Net Worth = Assets – Liabilities</i>	139
<i>Earnings Approach</i>	142
<i>Market Approach</i>	146
<i>Is There a Best Method?</i>	147
Understanding the Seller's Side	147
<i>For the Seller, Timing of the Sale Is Important</i>	148
<i>Plot an Exit Strategy and Structure the Deal</i>	149
Negotiating the Deal	151
<i>Factors Affecting the Negotiation Process</i>	151
<i>The Negotiation Process</i>	152
Chapter Summary	154
Discussion Questions	155
Step into the Real World	155
Take It to the Net	156
Endnotes	156

SECTION III: BUILDING A BUSINESS PLAN: MARKETING AND FINANCIAL MATTERS 157

Chapter 6 Crafting a Winning Business Plan	157
Why Develop a Business Plan?	158
The Elements of a Business Plan	161
Can Your Plan Pass These Tests?	174
Making the Business Plan Presentation	175
What Lenders and Investors Look for in a Business Plan	177
Conclusion	179
Suggested Business Plan Format	180
Chapter Summary	182
Discussion Questions	183
Step into the Real World	183
Take It to the Net	184
Endnotes	184

Chapter 7 Building a Guerrilla Marketing Plan	185
Creating a Guerrilla Marketing Plan	186
Market Diversity: Pinpointing the Target Market	188
Determining Customer Needs and Wants Through Market Research	190
How to Conduct Market Research	192
Plotting a Guerrilla Marketing Strategy: Building a Competitive Edge	195
<i>Guerrilla Marketing Principles</i>	196
Marketing on the World Wide Web	209
The Marketing Mix	211
<i>Product</i>	211
<i>Place</i>	213
<i>Price</i>	215
<i>Promotion</i>	215
Chapter Summary	215
Discussion Questions	216
Beyond the Classroom	216
Take It to the Net	217
Endnotes	217
Chapter 8 Creating a Solid Financial Plan	219
Basic Financial Reports	220
<i>The Balance Sheet</i>	220
<i>The Income Statement</i>	222
<i>The Statement of Cash Flows</i>	222
Creating Projected Financial Statements	224
<i>Pro Forma Statements for the Small Business</i>	224
Ratio Analysis	231
<i>Twelve Key Ratios</i>	233
Interpreting Business Ratios	242
<i>What Do All of These Numbers Mean?</i>	243
Breakeven Analysis	247
Chapter Summary	252
Discussion Questions	253
Step into the Real World	253
Take It to the Net	254
Endnotes	254
Chapter 9 Managing Cash Flow	255
Cash Management	256
Cash and Profits Are Not the Same	258
The Cash Budget	259
Preparing a Cash Budget	260
<i>Step 1: Determining an Adequate Minimum Cash Balance</i>	264
<i>Step 2: Forecasting Sales</i>	264
<i>Step 3: Forecasting Cash Receipts</i>	265
<i>Step 4: Forecasting Cash Disbursements</i>	267
<i>Step 5: Estimating the End-of-Month Cash Balance</i>	269

The “Big Three” of Cash Management	269
<i>Accounts Receivable</i>	271
<i>Accounts Payable</i>	276
<i>Inventory</i>	277
Avoiding the Cash Crunch	280
<i>Bartering</i>	280
<i>Trimming Overhead Costs</i>	281
<i>Investing Surplus Cash</i>	283
Conclusion	283
Chapter Summary	284
Discussion Questions	284
Step into the Real World	285
Take It to the Net	285
Endnotes	285

SECTION IV: SMALL BUSINESS MARKETING STRATEGIES 287

Chapter 10 Pricing and Credit Strategies	287
Pricing Strategies and Tactics	290
<i>New Products: Penetration, Skimming, or Sliding</i>	291
<i>Established Goods and Services</i>	292
Two Potent Pricing Forces: Image and Competition	295
<i>Price Conveys Image</i>	295
<i>Competition and Prices</i>	296
Pricing Techniques for Retailers	297
<i>Markup</i>	297
<i>Follow-the-Leader Pricing</i>	299
<i>Below-Market Pricing</i>	299
Pricing Techniques for Manufacturers	300
<i>Direct Costing and Price Formulation</i>	300
<i>Computing a Breakeven Selling Price</i>	302
Pricing Techniques for Service Firms	303
The Impact of Credit on Pricing	305
<i>Credit Strategies</i>	305
<i>E-Business and Credit Cards</i>	307
<i>Installment Credit</i>	308
<i>Trade Credit</i>	308
Chapter Summary	309
Discussion Questions	309
Step into the Real World	310
Take It to the Net	310
Endnotes	311
Chapter 11 Creative Use of Advertising and Promotion	312
Developing an Advertising Strategy	313
Advertising Versus Promotion	317
<i>Publicity</i>	317
<i>Personal Selling</i>	318
<i>Advertising</i>	320

Selecting Advertising Media	320
<i>Media Options</i>	321
Preparing an Advertising Budget	339
How to Advertise Big on a Small Budget	340
<i>Cooperative Advertising</i>	341
<i>Shared Advertising</i>	342
<i>Publicity</i>	342
<i>Other Ways to Save</i>	342
Chapter Summary	343
Discussion Questions	343
Step into the Real World	344
Take It to the Net	344
Endnotes	344
Chapter 12 Global Marketing Strategies for Entrepreneurs	345
Why Go Global?	346
Strategies for Going Global	349
<i>Employing a Presence on the World Wide Web</i>	349
<i>Trade Intermediaries</i>	352
<i>Joint Ventures</i>	353
<i>Foreign Licensing</i>	356
<i>International Franchising</i>	357
<i>Countertrading and Bartering</i>	357
<i>Exporting</i>	360
<i>Establishing International Locations</i>	365
Barriers to International Trade	366
<i>Domestic Barriers</i>	366
<i>International Barriers</i>	366
<i>Political Barriers</i>	367
<i>Business Barriers</i>	367
<i>Cultural Barriers</i>	368
International Trade Agreements	368
<i>GATT</i>	369
<i>WTO</i>	369
<i>NAFTA</i>	369
Conclusion	370
Chapter Summary	371
Discussion Questions	372
Step into the Real World	372
Take It to the Net	373
Endnotes	373
Chapter 13 E-Commerce and Entrepreneurship	374
Benefits of Selling on the Web	376
Factors to Consider Before Launching into E-Commerce	378
Twelve Myths of E-Commerce	379
Approaches to E-Commerce	385
Strategies for E-Success	389
Designing a Killer Web Site	393