

9th Edition

Small Business Management

An Entrepreneurial Emphasis



Longenecker
Moore
Petty

F27
L852
E.9

9761460

\$61X80

贈閱

Small Business Management

An Entrepreneurial Emphasis

388-4863

Ninth Edition



Justin G. Longenecker
Baylor University

Carlos W. Moore
Baylor University

J. William Petty
Baylor University



E9761460



COLLEGE DIVISION South Western Publishing Co.

Cincinnati Ohio

Acquisitions Editor: Randy G. Haubner
Developmental Editor: Carol A. Cromer
Production Editor: Sue Ellen Brown
Marketing Manager: Scott D. Person
Cover and Internal Designer: Joseph M. Devine
Internal Designer: Lesiak/Crampton Design
Photo Researcher: Kathryn A. Russell
Production House: WordCrafters Editorial Services, Inc.

GG70IA

Copyright © 1994
by South-Western Publishing Co.
Cincinnati, Ohio

ALL RIGHTS RESERVED

The text of this publication, or any part thereof, may not be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying, recording, storage in an information retrieval system, or otherwise, without the prior written permission of the publisher.

1 2 3 4 5 6 7 KI 9 8 7 6 5 4 3

Printed in the United States of America

Library of Congress Cataloging-in-Publication Data

Longenecker, Justin Gooderl

Small business management : an entrepreneurial emphasis / Justin
G. Longenecker, Carlos W. Moore, J. William Petty, — 9th ed.
p. cm.

Includes bibliographical references and index.

ISBN 0-538-83045-X (alk. paper)

I. Small business—Management. I. Moore, Carlos W. II. Petty,
J. William, 1942— . III. Title.

HD62.7.L66 1994

658.02'2—dc20

93-27331

CIP



International Thomson Publishing

South-Western Publishing Co. is an ITP Company. The ITP trademark is used under license.



This book is printed on acid-free paper that meets Environmental Protection Agency standards for recycled paper.



ABOUT THE AUTHORS

Due 3/26/96

Woman are blazing a bigger wider trail?

What do you think?

jaramillo
Higer
Santos
Garcia
Gaudin
Chapoteau

JUSTIN G. LONGENECKER—BAYLOR UNIVERSITY

Justin Longenecker has taught a variety of graduate and undergraduate courses, including Small Business Management. His authorship of *Small Business Management, An Entrepreneurial Emphasis* began with the first edition of this book and continues with an active, extensive involvement in preparation of the present edition. He has authored a number of books and numerous articles in such journals as *Journal of Small Business Management*, *Academy of Management Review*, *Business Horizons*, and *Journal of Business Ethics*. Active in a number of professional organizations, he has served as president of the International Council for Small Business.

Dr. Longenecker attended Central College, a two-year college in McPherson, Kansas. He earned his bachelor's degree in Political Science from Seattle Pacific University, his M.B.A. from Ohio State University, and his Ph.D. from the University of Washington.

CARLOS W. MOORE—BAYLOR UNIVERSITY

Carlos W. Moore is the Edwin W. Streetman Professor of Marketing at Baylor University, where he has been an instructor for more than 20 years. He has



been honored as a Distinguished Professor by the Hankamer School of Business, where he teaches both graduate and undergraduate courses. Professor Moore has authored articles in such journals as *Journal of Small Business Management*, *Journal of Business Ethics*, *Organizational Dynamics*, and *Accounting Horizons*. His authorship of this textbook began with its sixth edition.

Dr. Moore received an Associate Arts degree from Navarro Junior College in Corsicana, Texas, where he was later named Ex-Student of the Year. He earned a B.B.A. degree from The University of Texas at Austin, an M.B.A. from Baylor University, and a doctorate from Texas A & M University.

Besides his academic experience, Dr. Moore has business experience as co-owner of a small ranch and is a partner in a small-business consulting firm.

J. WILLIAM PETTY—BAYLOR UNIVERSITY

The ninth edition welcomes J. William Petty as the newest member of the authorship team. Dr. Petty is Professor of Finance and the W. W. Caruth Chairholder in Entrepreneurship in the Department of Finance at Baylor University. One of his primary responsibilities is teaching entrepreneurial finance, both at the undergraduate and graduate levels. He has also taught Financing the Small Firm at the University of Texas at Austin. He is a co-author of a leading corporate finance textbook and a co-author of *Financial Management of the Small Firm*. He is also a contributor to the *Portable MBA on Entrepreneurship*. In 1992, he served as the Program Chair for the annual meetings of the Academy of Small Business Finance. Professor Petty has published research in numerous academic and practitioner journals, including *Financial Management*, *Accounting Review*, *Journal of Financial and Quantitative Analysis*, *Journal of Managerial Finance*, and the *Journal of Small Business Finance*. He has served as a consultant to several small and middle-market companies.

Dr. Petty received his undergraduate degree in marketing from Abilene Christian University, and both his M.B.A. and Ph.D. in finance and accounting from The University of Texas at Austin. He is a C.P.A. in the State of Texas.



P R E F A C E

A NOTE TO THE TEACHER

For more than three decades, *Small Business Management, An Entrepreneurial Emphasis* has been the most widely used text in its field. In keeping with this tradition, we have prepared a ninth edition that incorporates the most current theory and practice related to starting and managing small firms. Reflecting our diverse academic fields of management, marketing, and finance, we have also attempted to provide a well-balanced treatment of small-business issues. In the preparation of the book, three primary standards have been used. First, we have made a strong effort to offer *completeness* in the treatment of each topic. Second, we have given readability a high priority; we have taken extra care to use a clear and concise writing style. Finally, frequent references have been made to real-world examples to help the student see the relevance of a concept.

We feel the balance between theory and practice offered by the text is the primary reason that IN-TELE-COM, a major producer of educational programs, has once again selected our text for use with its *Something Ventured* telecourse.

Ultimately, however, it is your evaluation that is most important to us. We sincerely want to know what you think. Please feel free to give any of us a call as you have questions or needs. We view ourselves as partners in this venture, and we will be sensitive to your wishes and desires whenever possible.



A NOTE TO THE STUDENT

As the authors of *Small Business Management, An Entrepreneurial Emphasis*, we realize that our success ought to be measured by the level of effectiveness in our presentation to you, the end user. While you most likely are not involved in the process of selecting which text will be used in your class, we still consider you to be our customer. Thus, we feel a strong desire to be sensitive to your needs to learn the concepts and ideas presented in the text. For this reason, we have made every effort to make the material understandable and relevant. We have tried to meet your needs in each chapter we have written.

REVISION HIGHLIGHTS OF THE NINTH EDITION

A number of specific changes have been made in the ninth edition that may not be obvious to the casual observer, but which should make the text even more beneficial than its predecessors. Among the revision highlights of this ninth edition are the following:

1. A new chapter (Chapter 3) emphasizes developing a competitive advantage and selecting a market niche.
2. The discussion of buying a business (Chapter 4) has been strengthened by an expanded explanation of methods of valuing a small firm.
3. The preparation of the business plan (Chapter 7) has been amplified to include a fuller treatment of the investor's perspective in examining such plans.
4. Chapter 10 provides a more complete presentation on determining the nature and amount of asset and financing requirements for a new venture.
5. A tutorial on finding the present value of future cash flows has been added in Appendix C.
6. Coverage of international marketing and its implications for small business has been expanded in Chapter 15.
7. Total quality management in all types of business operations has been made the primary focus of Chapter 18.
8. A new presentation on how to read financial statements that has been classroom proven to work well with students who are not accounting oriented is provided in Chapter 20.
9. Coverage of working capital management (Chapter 21) has been enhanced with special attention to cash-flow analysis.
10. A new chapter (Chapter 22) has been provided on using capital budgeting techniques within the small firm.
11. Chapter 23 has been completely rewritten to provide a thoroughly up-to-date treatment of the various types of computer-based technology applicable to small firms.



The preceding list of changes is not comprehensive. However, it does highlight the types of changes we have committed ourselves to making in order that the ninth edition will continue to reflect the very best that we have to offer.

KEY FEATURES OF THE TEXTBOOK

Small Business Management, An Entrepreneurial Emphasis, Ninth Edition, includes a number of features that facilitate student learning. The primary learning aids are:

1. A chapter “opener” (Spotlight on Small Business) that features a specific small-business firm in the context of that chapter.
2. A Looking Ahead section that presents active, measurable learning objectives and lists key terms and concepts for the chapter.
3. Small Business in Action reports that dramatize text material with experiences of real-world entrepreneurs.
4. Photographs, graphs, tables, and illustrations that communicate key concepts.
5. Definitions of key terms and concepts in the margins.
6. A Looking Back section for each chapter that reviews basic chapter topics.
7. Discussion Questions at the end of each chapter. Some questions review chapter content and some stimulate further thinking about chapter concepts.
8. Two short incidents (You Make the Call) to stimulate application of concepts developed in the chapter.
9. Experiential Exercises at the end of each chapter.
10. Annotated References to Small-Business Practices at the end of each chapter that identify and give a brief content description of articles describing applications of chapter topics.
11. Real-world cases at the end of the text. One case relates to each chapter of the book.
12. A glossary of terms used in the text.

INSTRUCTIONAL SUPPORT

The following supplements are available to assist in the teaching and learning process:

1. ***Student Learning Guide***. This supplement presents key points of each textbook chapter, brief definitions, programmed self-reviews, creative exercises, and a series of pretests.
2. ***Instructor’s Manual***. To further facilitate instruction, a comprehensive *Instructor’s Manual* is available. Each chapter of this manual contains lecture notes, sources of audio/video and other instructional materials, answers to



chapter discussion questions, comments on chapter "You Make the Call" situations, and suggestions for case and *Student Learning Guide* assignments. There are also separate sections devoted to teaching notes on the textbook cases, solutions to exercises in the *Student Learning Guide*, and transparency masters.

3. **Color Transparencies.** A set of over 100 color transparencies is available for use in the classroom discussion of chapter material. Many of these transparencies contain material not found in the textbook.
4. **Videotapes.** Since this textbook is used by IN-TELE-COM as part of their telecourse, *Something Ventured*, arrangements have been made for adopters to receive, at no cost, tapes from this video program. Contact your sales representative for details.
5. **Test Bank.** A comprehensive test bank includes true/false, multiple-choice, and discussion questions. All questions have been prepared by full-time instructors and carefully reviewed for clarity.
6. **Computerized Test Bank.** The complete test bank is available on easy-to-use diskettes. These MicroExam 4.0 diskettes are available for MS DOS[®] computers.

ACKNOWLEDGMENTS

In preparing the ninth edition, we have been aided by colleagues, students, business owners, and others in providing case materials in numerous other ways. For their helpful revision suggestions, we are especially grateful to the following individuals:

Guy Adamo
Berkeley College of Business

Robert J. Ash
Rancho Santiago College

Jerry E. Boles
Western Kentucky University

Richard P. Butler
Alverno College

Michael Crone
DeVry Institute of Technology

Norman Deunk
Central Michigan University

Bonnie Ann Dowd
Palomar College

Robert Edmondson
MiraCosta Community College

C. S. Everett
Des Moines Area Community College

Larry B. Hill
San Jacinto College Central

Donald W. Hucker
Cypress College

Roger J. Kashlak
Temple University

Robert L. Kuhlman
Chaffey Community College



Joseph B. Lovell
California State University, San
Bernardino

Donald D. Manning
Mesa State College

Susan J. Mitchell
Des Moines Area Community College

Joanne C. Murphy
Citrus College

E. Gladys Norman
Linn-Benton Community College

David Pecha
Northwestern Oklahoma State
University

Gerald E. Smith
Vincennes University

Frederick A. Ware, Jr.
Valdosta State University

Arthur Yehle
Georgia College

We especially appreciate the contribution of Philip R. Carpenter. We also acknowledge the assistance of Fred S. Hulme, Jr., in the preparation of Chapter 23; the support of Mr. and Mrs. Edwin W. Streetman, the Hillcrest Foundation, and our Dean, Richard C. Scott; and the typing of Doris Kelly. We are especially indebted to H. N. Broom for the material that was shaped by his co-authorship over the first six editions. We also appreciate the understanding and support of our wives, Frances, Gwen, and Donna.

We also thank our friends at South-Western Publishing Co. They are truly professionals. We offer our personal expression of appreciation to Randy Haubner, our Acquisitions Editor, Carol Cromer, our Developmental Editor, and Sue Ellen Brown, our Production Editor.

As a final word, we express our sincere thanks to the many teachers who use *Small Business Management, An Entrepreneurial Emphasis* in the classroom—in both academic and professional settings. We thank you for letting us serve you.

Justin G. Longenecker
Carlos W. Moore
J. William Petty
Baylor University



B R I E F C O N T E N T S

PART 1 **NATURE OF SMALL BUSINESS 1**

- 1 Entrepreneurs: The Energizers of Small Business 2
- 2 Small Business: Vital Component of the Economy 29

PART 2 **ENTREPRENEURIAL OPPORTUNITIES 51**

- 3 Competitive Advantage: Niche Strategy and Customer Service 52
- 4 Startup and Buyout Opportunities 80
- 5 Franchising 110
- 6 Family Business Opportunities 136

PART 3 **PREPARING THE BUSINESS PLAN 161**

- 7 Creating a Formal Business Plan 162
- 8 Building the Marketing Plan 188

- 9 Planning the Management Team and Physical Facilities 214
- 10 Initial Financial Requirements and Sources of Financing 237
- 11 Choosing a Form of Ownership 272

PART 4 SMALL BUSINESS MARKETING 297

- 12 Consumer Behavior and Product/Service Strategy 298
- 13 Pricing and Credit Strategies 326
- 14 Promotion: Personal Selling, Advertising, and Sales Promotion 356
- 15 Distribution Channels and International Markets 381

PART 5 MANAGING SMALL BUSINESS OPERATIONS 409

- 16 Professional Management in the Growing Firm 410
- 17 Managing Human Resources 438
- 18 Quality Management and the Operations Process 460
- 19 Purchasing and Managing Inventory 485

PART 6 FINANCIAL AND ADMINISTRATIVE CONTROLS 505

- 20 Understanding Financial Statements and Accounting Systems 506
- 21 Working-Capital Management 542
- 22 Capital Budgeting 567
- 23 Computer-Based Technology for Small Businesses 591
- 24 Risk and Insurance Management 620

PART 7 SOCIAL AND LEGAL ENVIRONMENT 647

- 25 Social and Ethical Issues 648
- 26 Working Within the Law 666

CASES 693

APPENDIXES 781

GLOSSARY 793

INDEX 807

ACKNOWLEDGMENTS 827



C O N T E N T S

PART 1 **NATURE OF SMALL BUSINESS 1**

1 Entrepreneurs: The Energizers of Small Business 2

Stories of Successful Entrepreneurial “Energizers” 3 Rewards and Drawbacks of
Entrepreneurship 8 Characteristics of Entrepreneurs 11 Readiness for
Entrepreneurship 15 Kinds of Entrepreneurship 18

2 Small Business: Vital Component of the Economy 29

Definition of Small Business 30 Small Business as Producer of Goods and Services 32
Special Contributions of Small Business 37 The Small-Business Failure Record 43
Causes of Business Failure 46

PART 2 **ENTREPRENEURIAL OPPORTUNITIES 51**

3 Competitive Advantage: Niche Strategy and Customer Service 52

Competitive Strategy 54 Market Segmentation Strategies 58 Niche Marketing 64
Customer Service Management 70 Total Quality Management 72

4 Startup and Buyout Opportunities 80

The Startup: Creating a New Business 81 Buying an Existing Business 90

5 Franchising 110

Franchising Terminology 111 Types of Franchising Systems 112 Buying a Franchise 112 Evaluating Franchise Opportunities 121 Selling a Franchise 129 Trends in Franchising 130

6 Family Business Opportunities 136

The Family Business: A Unique Institution 137 Family Roles and Relationships 143 The Process of Succession 149

PART 3 PREPARING THE BUSINESS PLAN 161

7 Creating a Formal Business Plan 162

Need for a Business Plan 163 How to Prepare a Business Plan 167 Content of a Business Plan 173

8 Building the Marketing Plan 188

Understanding Marketing Activities 189 Collecting Marketing Information 192 Determining Market Potential 198 Designing the Formal Marketing Plan 205

9 Planning the Management Team and Physical Facilities 214

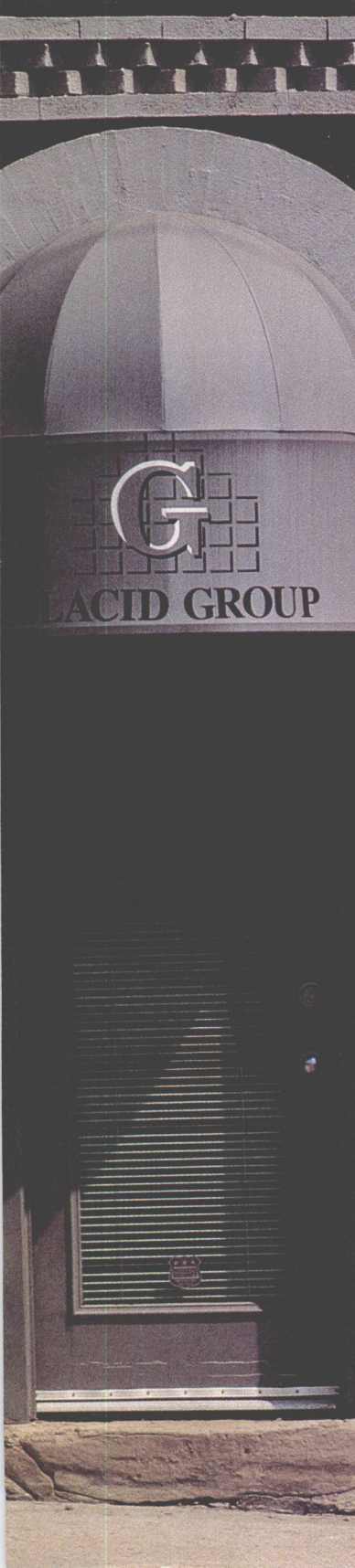
Planning the Management Team 215 Selecting a Location 218 The Building and Its Layout 227 Equipment and Tooling 231

10 Initial Financial Requirements and Sources of Financing 237

Financing the New Venture: The Basic Questions 238 Profitability and Financing a New Venture 239 Determining the Nature of Financial Requirements 241 Basic Types of Financing 244 Estimating the Amount of Funds Required 246 Finding Sources of Funds 253 Concluding Thoughts 266

11 Choosing a Form of Ownership 272

Forms of Legal Organization 273 The Proprietorship Option 274 The Partnership Option 275 The Corporation Option 279 Criteria for Choosing the Ownership Form 284 Federal Income Taxes and the Legal Form of Business 286 The Board of Directors in Small Corporations 289



PART 4 SMALL BUSINESS MARKETING 297

12 Consumer Behavior and Product/Service Strategy 298

Concepts of Consumer Behavior 299 Product Strategies for Small Business 309
Basic Concepts for Strategy Management 314 Completing the Total Bundle of
Satisfaction 318

13 Pricing and Credit Strategies 326

Pricing Activities 327 Credit in Small Business 338

14 Promotion: Personal Selling, Advertising, and Sales Promotion 356

Promotional Planning 357 Personal Selling 362 Advertising 367 Sales
Promotion 372

15 Distribution Channels and International Markets 381

Distribution Activities 382 International Markets 388

PART 5 MANAGING SMALL BUSINESS OPERATIONS 409

16 Professional Management in the Growing Firm 410

Distinctive Features of Small-Firm Management 411 The Nature of Managerial
Work 416 Time Management 425 Outside Management Assistance 427

17 Managing Human Resources 438

Recruiting and Selecting Personnel 439 Training and Development 447
Compensation and Incentives for Small-Business Employees 450 Special Issues in
Human Resource Management 452

18 Quality Management and the Operations Process 460

The Operations Process and Quality 461 Total Quality Management 468 Plant
Maintenance 474 Productivity and Methods Improvement 476



19 Purchasing and Managing Inventory 485

Purchasing 486 Inventory Control 495

**PART 6
FINANCIAL AND ADMINISTRATIVE
CONTROLS 505****20 Understanding Financial Statements and
Accounting Systems 506**

Accounting Activities in Small Firms 507 Typical Financial Statements 514
Financial Ratio Analysis 525

21 Working-Capital Management 542

The Working-Capital Cycle 543 Managing Cash Flow 550 Managing Accounts
Receivable 558 Managing Inventory 561 Managing Accounts Payable 562

22 Capital Budgeting 567

Capital Budgeting Techniques: An Overview 569 Determining the Firm's Cost of
Capital 579 Capital Budgeting and the Small Firm's Need for Liquidity 581
Capital Budgeting Practices of Small Firms 582 Other Considerations in Evaluating
Expansion Opportunities 584

**23 Computer-Based Technology
for Small Businesses 591**

Overview of Available Technology 592 Computer Systems: Hardware and
Software 594 Communications Among Computers 604 Office and Production
Technology 607 Purchasing and Managing Technology 610 The Future of
Computers 614

24 Risk and Insurance Management 620

Defining Small-Business Risks 621 Market-Centered Risks 622 Property-Centered
Risks 624 Personnel-Centered Risks 627 Customer-Centered Risks 629
Bankruptcy 631 Coping with Small-Business Risks 631 Insurance for the Small
Business 636

**PART 7
SOCIAL AND LEGAL ENVIRONMENT 647****25 Social and Ethical Issues 648**

Social Responsibilities of Small Business 649 Ethical Responsibilities of Small
Business 655

2150

26 Working Within the Law 666

Regulation and Small-Business Opportunity 667 Regulation and Protection of the Marketplace 672 Business Agreements and the Law 682 The Challenge of Taxation 685

CASES

- 1 Robert Mulder, Sole Proprietor 693
- 2 Marty's Landscaping, Inc. 697
- 3 The Fantastic Catalogue Co. 700
- 4 Stitch Craft 705
- 5 The Medicine Shoppe 709
- 6 Construction Equipment Dealership 711
- 7 Robinson Associates, Inc. 714
- 8 HOT Magazine 720
- 9 Frost Jewelry Store 725
- 10 Walker Machine Works 728
- 11 VMG Products 731
- 12 The Expectant Parent Center 732
- 13 The Jordan Construction Account 734
- 14 Mitchell Interiors 736
- 15 Litter Ridder 739
- 16 Central Engineering 743
- 17 Gibson Mortuary 746
- 18 Burton Walls Electric 749
- 19 Mather's Heating and Air Conditioning 753
- 20 Style Shop 755
- 21 Barton Sales and Service 761
- 22 Willingham Courses, Inc. 765
- 23 Franklin Motors 767
- 24 Fox Manufacturing 769
- 25 Johnson Utility Trailer, Inc. 772
- 26 Diaper Dan 777

APPENDIXES

- A Present Value of \$1 781
- B Present Value of an Annuity of \$1 for n Periods 785
- C Time Value of Money 789

GLOSSARY 793**INDEX 807****ACKNOWLEDGMENTS 827**