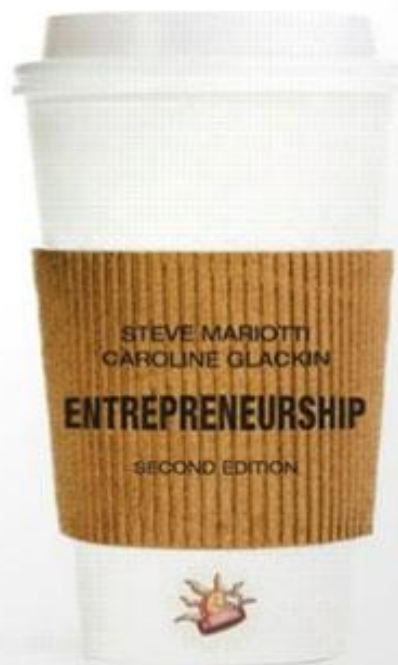


# SOLUTIONS MANUAL



STEVE MARIOTTI  
CAROLINE GLACKIN

**ENTREPRENEURSHIP**

SECOND EDITION



**Online Instructor's Manual to accompany**  
**ENTREPRENEURSHIP**  
**Starting and Operating a Small Business**

**Steve Mariotti**  
**Caroline Glackin**

**Prentice Hall**

Upper Saddle River, New Jersey

Columbus, Ohio



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## Introduction

*Entrepreneurship: Starting and Operating a Small Business* is based on the National Foundation for Teaching Entrepreneurship (NFTE) academic programs developed by Steve Mariotti, president and founder of NFTE. Since 1987, the NFTE organization had reached 150,000 students and professionals, and certified over 3,500 instructors to teach an innovative entrepreneurship curriculum. NFTE is widely viewed as a world leader in promoting entrepreneurial literacy and has a proven track record of helping students start a wide variety of successful new ventures. For this second edition, Steve Mariotti is joined by coauthor, Caroline Glackin, from Delaware State University. The book addresses the current market need for a practical beginner's course on entrepreneurship that enables each student to write a professional business plan.

We have integrated relevant real-world case studies, pictures and illustrations into the book and have included BizBuilder resources on the Web site and a Business Plan Pro CD that guide students step by step through writing their own plans. These supplements also provide hundreds of examples of real business plans. This book reflects the authors' over 40 years of experience teaching these concepts. The text can be taught at the instructor's own pace over a semester or 2 years and is based on a curriculum that has been tested in the field and refined over 25 years so that difficult financial and business concepts can be learned easily by beginners.

This book encourages college students to think through every step of creating their own small business while learning M.B.A.-level economic, financial, and business concepts. Upon completion of this course, students will be able to:

- Write a professional business plan.
- Keep accounting journals.
- Create income, balance sheet, and cash flow statements.
- Use financial ratios to evaluate business performance.
- Analyze markets and create effective marketing plans.
- Use sources of capital.
- Invest earnings.
- Develop harvesting and exit strategies.

### Chapter Features

1. Beginning of chapter:
  - Quotation
  - Entrepreneurial Vignette
  - Performance Objectives
2. End of chapter:
  - Chapter Summary
  - Key Terms
  - Entrepreneurship Portfolio
    - Critical Thinking Exercises
    - Key Concept Questions

- Application Exercises
- Exploring Your Community and Exploring Online
- In Your Opinion
- Short Case Study/Case Study Analysis
- Long Case Study/Case Study Analysis

## Contents of Manual

This Instructor's Manual provides the instructor with a summary of each chapter, as well as answers to all chapter exercises, case study analyses, and lists of additional print and Web resources.

### Suggested Course Syllabi

- 8-Week Course
- 15-Week Term (3 hours/week)

**Chapter Outlines:** Outlines and teaching notes for each chapter topic are provided.

**Solutions to Chapter Exercises:** Answers are provided for all chapter exercises.

**Outside the Classroom:** Chapters include listings for additional Web sites, media (magazines, etc.), and organizations (e.g., Small Business Administration) that are relevant to the chapter material and help to expand the learning experience beyond the classroom.

**Chapter Tests:** Each chapter test includes at least 30 multiple-choice questions and 5 essay questions.

## NFTE Auto Journal Description

The NFTE Auto Journal is an electronic version of the conventional paper-and-pencil version of the *NFTE Journal* used in the NFTE entrepreneurship program. It is used to keep business records and make important financial reports. Students can enter their journal transactions directly into the electronic file, and the computer will automatically calculate all of the financial reports required in the NFTE curriculum. The NFTE Auto Journal coordinates with the NFTE textbook and is compatible with the paper version of the *NFTE Journal*. Features include the following:

1. It automatically tracks the cash balance of business bank accounts.
2. It automatically totals distribution columns (right-hand entries).
3. It automatically creates financial reports such as the following:
  - Income statements
  - Starting and ending balance sheets
  - ROI ratios
  - ROS ratios
4. It automatically tracks the total investment in the business to date (not just the investment made in the current month).
5. It contains space for 12 months of operation, starting on any month of the year.
6. It has automatic formal financial reports (monthly, quarterly, and annual) in both standard and customizable forms.
7. The following *optional* features are provided:
  - Depreciation
  - Accounts payable/accounts receivable
  - Estimated tax information

An instruction manual that covers information not in the textbook is included.

The NFTE Auto Journal is a customized Excel spreadsheet, and users must have a copy of Microsoft Excel on any computer they expect to use the file with.

This Instructor's Manual is originally based on the Teacher's Edition of *How to Start and Operate a Small Business* written by Steve Mariotti with Seana Moran, with assistance from John Harris.



## Course Syllabi

COURSE TITLE: Entrepreneurship  
COURSE NUMBER: E101  
  
PREREQUISITES: None  
  
PROGRAM: Business Administration  
DIVISION: Business

INSTRUCTOR:	Steve Mariotti
Phone:	807-8656
Room Number:	201
E-mail:	stevem@nfte.com
Office Hours:	TBA

**Catalog Description: For courses in entrepreneurship and small business management as well as courses in continuing education on how to start your own business.**

Written by an award-winning expert in teaching entrepreneurship, Steve Mariotti, with entrepreneur and academic, Caroline Glackin, *Entrepreneurship: Starting and Operating a Small Business, Second Edition*, demystifies the process of starting a business by presenting difficult economic, financial, and business concepts in a manner easily understood by beginning business students. This book is based on a proven curriculum from the National Foundation for Teaching Entrepreneurship (NFTE) and draws from the authors' 40 years of entrepreneurial teaching experience. Clear and energetic, it is supported *BizBuilder* worksheets on the Web site and *Business Plan Pro*. Students begin building their business plans as soon as they open the text! In a step-by-step process, students will learn how to start a small business, operate a small business, and turn their ideas into viable business opportunities.

## General Course Objectives

The objectives of this course are to teach students everything they need in order to start and maintain their own small business. Upon successful completion of this course, the student will be expected to:

1. Explain what entrepreneurs do.
2. Describe how free-enterprise economies work and how entrepreneurs fit into them.
3. Find and evaluate opportunities to start a business.
4. Explain how profit works as a signal to the entrepreneur.
5. Know what a business plan is and how to describe it.
6. Explain the various purposes for a business plan and the audiences for it.
7. Understand the components of a business plan.
8. Be able to demonstrate proper development and formatting of a business plan.
9. Define a business.
10. Articulate core beliefs, mission, and vision.
11. Analyze competitive advantage.
12. Perform initial viability testing using the economics of one unit.
13. Explain how marketing differs from selling.
14. Understand how market research prepares business owners for success.
15. Choose a market segment and research it.
16. Position a product or service within its market.
17. Combine the “four P’s”—product, price, place, and promotion—into a marketing mix.
18. Choose the attributes of a product or service.
19. Choose a pricing strategy.
20. Decide on the location that is best for customers.
21. Determine the mix of promotion to use for a business.
22. Find a way to add the fifth “P” – philanthropy – to a business.
23. Use breakeven analysis to evaluate a marketing plan.
24. Explain the importance of selling based upon benefits.
25. Use the principles of selling to make effective sales calls.
26. Analyze and improve sales calls.
27. Handle customer complaints effectively.
28. Provide excellent customer service.

29. Describe the variable costs of starting a business.
30. Analyze fixed operating costs and calculate gross profit.
31. Set up financial recordkeeping for a business.
32. Create financial statements.
33. Read an income statement.
34. Examine a balance sheet to determine a business's financing strategy.
35. Use the balance sheet equation to see the relationship between assets, liabilities, and owner's equity.
36. Perform a financial ratio analysis of an income statement.
37. Calculate return on investment (ROI).
38. Perform "same size" analysis of an income statement.
39. Use quick, current, and debt ratios to analyze a balance sheet.
40. Explore personal financing preferences.
41. Identify the types of business financing.
42. Compare the pros and cons of debt and equity financing.
43. Identify sources of capital for businesses.
44. Understand stocks and bonds as investing alternatives.
45. Use a cash flow statement to guide business operations.
46. Read a cash flow statement.
47. Manage and forecast cash flows effectively.
48. Understand the future value of money.
49. Calculate the present value of money.
50. File appropriate tax returns.
51. Calculate working capital.
52. Choose the appropriate legal structure for a business
53. Understand the importance of contracts.
54. Protect intellectual property.
55. Choose the right insurance policies for a business.
56. Understand the significance of operations in a business.
57. Develop a production-distribution chain for a business.
58. Manage suppliers and inventory.
59. Ensure product quality.

60. Use technology to benefit a business.
61. Explain what makes an effective manager.
62. Recruit, manage, and motivate employees.
63. Research the laws and tax issues affecting employees.
64. Describe the tasks handled by corporate managers.
65. Make sure a business is run in an ethical manner.
66. Determine how to grow a business and exit from it.
67. Describe how businesses use licensing to profit from their brands.
68. Explain how a business can be franchised.
69. Learn methods of valuing a business.
70. Discuss five ways to harvest a business.

**Text:** *Entrepreneurship: Starting and Operating a Small Business, 2e*, by Steve Mariotti and Caroline Glackin (Pearson/Prentice Hall)

**Software:** Business Plan Pro

## **EVALUATION PROCEDURES**

Evaluation will use one or more of the following: quizzes, examinations, projects, assignments, presentations, class participation, completion of a business plan, and other evaluative exercises designed to ensure that the course objectives are met.

90–100%—A

80–89%—B

70–79%—C

60–69%—D

## **ACADEMIC HONESTY STATEMENT**

The College is committed to academic integrity in all its practices. We value intellectual integrity and a high standard of academic conduct. Activities that violate academic integrity undermine the quality and diminish the value of educational achievement.

Academic dishonesty/cheating on papers, tests, or other academic works is a violation of College rules. No student shall engage in behavior that, in the judgment of the instructor of the class, may be construed as cheating. This may include, but is not limited to, plagiarism or other forms of academic dishonesty such as the acquisition without permission of tests or other academic materials and/or distribution of these materials and other academic work; it also includes students who aid and abet as well as those who attempt such behavior.

## **ADA STATEMENT**

The College seeks to provide effective services and accommodations for qualified individuals with documented disabilities. The goal of Disability Support Services (DSS) is to provide opportunities for equal access in college programs, services, and activities. DSS assists students with disabilities in achieving their educational goals through such services as academic and career counseling, adaptive testing, tutoring, note taking, interpreting, and test proctoring.

## Sample Course Syllabi

### 8-Week Agenda

Week	Readings	Exercises	Business Plan Activities	PPT Slides
1	<p>Ch 1: pp. 2 – 5, 6 – 8 (starting with Why Be an Entrepreneur?), 12 - 21</p> <p>Ch 2: pp. 30 – 42 and The Daily Perc</p> <p>Appendix 4</p>	<p>Ch 1:</p> <ul style="list-style-type: none"> <li>■ Critical Thinking – 3, 5, 7</li> <li>■ Key Concepts – 2, 3</li> <li>■ Application</li> <li>■ Exploring Your Community – start in Week 1 – due Week 2</li> <li>■ JetBlue Airways case</li> </ul> <p>Ch 2:</p> <ul style="list-style-type: none"> <li>■ Critical Thinking – 1, 3, 4</li> <li>■ Key Concepts – 1, 3, 5</li> <li>■ Exploring Your Community</li> <li>■ In Your Opinion</li> </ul>	Begin to identify business ideas	<b>Ch 1, 2</b>
2	<p>Ch 3: pp. 76 – 84, 88 – 92 (starting with Feasibility)</p> <p>Unit 1: Business Plan Breakdown</p> <p>Ch 4: Entire chapter</p>	<p>Ch 1: Entrepreneur interview due</p> <p>Ch 3:</p> <ul style="list-style-type: none"> <li>■ Critical Thinking – 1, 3, 6</li> <li>■ Key Concepts – 1, 3, 4</li> <li>■ Application</li> <li>■ Exploring Online - 1</li> <li>■ Connecting Cultures Virtually – The CulturalConnect case study</li> </ul> <p>Ch 4:</p> <ul style="list-style-type: none"> <li>■ Critical Thinking - all</li> <li>■ Key Concepts – 1, 3, 5</li> <li>■ Exploring Online</li> <li>■ Market Research for Off-Centered Ales – Dogfish Head Brewery case</li> </ul>	Select team for business development.	<b>Ch 3, 4</b>

3	<p>Ch. 5: pp. 132 - 148</p> <p>Ch 6: pp. 162 – 172 (ending with Customer Complaints)</p> <p>Unit 2 Business Plan Breakdown</p>	<p>Ch 5:</p> <ul style="list-style-type: none"> <li>■ Critical Thinking – 2, 3, 5, 7</li> <li>■ Key Concepts – 3, 4, 5</li> <li>■ Application - all</li> <li>■ Exploring Your Community - all</li> <li>■ Dr. Farrah Gray case study</li> </ul> <p>Ch 6:</p> <ul style="list-style-type: none"> <li>■ Critical Thinking – 2, 4, 5, 6</li> <li>■ Key Concepts – 1, 3, 6, 7</li> <li>■ Application - 1</li> <li>■ Exploring Your Community</li> <li>■ The Nightmare – Mike the Mechanic case study</li> </ul>	<p><b>BizBuilder Worksheets -- Cover Page Table of Contents (without pages) Exec. Summ. through “C” Mission, Vision &amp; Culture</b></p> <p>Identify a business to create.</p>	Ch 5, 6
4	<p>Ch 7: Entire chapter</p> <p>Ch 8: Entire chapter</p>	<p>Ch 7:</p> <ul style="list-style-type: none"> <li>■ Critical Thinking – 2, 5</li> <li>■ Key Concepts – 2 - 6</li> <li>■ Application</li> <li>■ Exploring Online</li> <li>■ The Importance of Cash case</li> </ul> <p>Ch 8:</p> <ul style="list-style-type: none"> <li>■ Critical Thinking – 4, 5, 7, 9</li> <li>■ Key Concepts – 1, 7, 8</li> <li>■ Exploring Online</li> <li>■ Extreme Entrepreneurship Education, LLC case</li> </ul>	<p><b>BizBuilder Worksheets – Exec. Summ. D-I Opportunity Analysis &amp; Research Marketing Strategy &amp; Plan</b></p>	Ch 7, 8
5	<p><i>Midterm</i></p> <p>Ch 9: pp. 256 – 260, 263 – 264 (ending with Wage Taxes), 265 - 266</p>	<p><i>Midterm</i></p> <p>Ch 9:</p> <ul style="list-style-type: none"> <li>■ Critical Thinking – 1, 4, 5</li> <li>■ Key Concepts – 1, 4</li> <li>■ Exploring Online - 2</li> <li>■ Managing Cash – CakeLove and Love Café</li> </ul>	<p><i>Midterm</i></p>	<p><i>Midterm</i></p> <p>Ch 9, 10</p>

	Ch 10: pp. 275 – 279, 282 – 287  Unit 3 Business Plan Breakdown	Ch 10: <ul style="list-style-type: none"> <li>■ Critical Thinking – 1, 4</li> <li>■ Key Concepts – 1, 2</li> <li>■ Application - 2</li> <li>■ Exploring Online - 2</li> <li>■ Lee’s Ice Cream case</li> </ul>		
6	Ch 11: pp. 312 – 324  Ch 12: pp. 336 – 341 (skip Job Shops), 342 -350	Ch 11: <ul style="list-style-type: none"> <li>■ Critical Thinking – 3, 7, 9</li> <li>■ Key Concepts – 1, 5, 6</li> <li>■ Exploring Your Community – 2 - 8</li> <li>■ Magnetic Poetry case</li> </ul> Ch 12: <ul style="list-style-type: none"> <li>■ Critical Thinking – 2, 4, 6</li> <li>■ Key Concepts – 2</li> <li>■ Application Exercises - 2</li> <li>■ Exploring Your Community</li> <li>■ Small Parts Manufacturing case</li> </ul>	<b>BizBuilder Worksheets- Executive Summary “J – K” Financial Analysis &amp; Projections Amount &amp; Type of Funds Requested</b>	<b>Ch 11, 12</b>
7	Ch 13: Entire chapter  Unit 4 Business Plan Breakdown  Ch 14: pp. 392 – 396  Unit 5 Business Plan Breakdown  Appendix 2: Sample Student Business Plan	Ch 13: <ul style="list-style-type: none"> <li>■ Critical Thinking – 1, 3, 7</li> <li>■ Key Concepts – 2, 4</li> <li>■ Application - 3</li> <li>■ In Your Opinion</li> <li>■ Growing the Team case</li> </ul> Ch 14: <ul style="list-style-type: none"> <li>■ Critical Thinking – 3, 4</li> <li>■ Key Concepts - 2</li> <li>■ Application</li> <li>■ Exploring Online</li> <li>■ Growth Through Franchising case</li> </ul>	<b>BizBuilder Worksheets – Exec. Summ. “L, M” Management &amp; Operations</b>  (Biz Builder Worksheets – Exec. Summ. “N” Company Description Exit Plan Milestones To be completed for final project)	<b>Ch 13, 14</b>  <b>Sample Student Plan from BizBuilder</b>
8	Student presentations	BizBuilder questions and template from Web site to use Business Pro for written presentation	<b>Final business plan due.</b>	Student PPTs



**15-Week Term (3 hours/week)**

<b>Week</b>	<b>Readings</b>	<b>Exercises</b>	<b>Business Plan Activities</b>	<b>PPT Slides</b>
1	Ch 1 Ch 2, excluding The Daily Perc	Ch 1: <ul style="list-style-type: none"> <li>■ Critical Thinking – 1, 3, 5, 7</li> <li>■ Key Concepts – 2, 3</li> <li>■ Application</li> <li>■ Exploring Your Community – start in Week 1 – due Week 2</li> <li>■ JetBlue Airways case</li> </ul>	<b>Begin to identify venture ideas and team members</b>	<b>Ch 1, 2</b>
2	The Daily Perc  Appendix 4  Ch 3	Entrepreneur Interview  Ch 2: <ul style="list-style-type: none"> <li>■ Critical Thinking – 1, 3, 4</li> <li>■ Key Concepts – 1, 3, 5</li> <li>■ Exploring Your Community</li> <li>■ In Your Opinion</li> </ul> Ch 3: <ul style="list-style-type: none"> <li>■ Critical Thinking – 1, 3, 5, 6</li> <li>■ Key Concepts – 1, 3, 4</li> <li>■ Application</li> <li>■ Exploring Online - 1</li> <li>■ Connecting Cultures Virtually case</li> </ul>	<b>Form team, develop venture concept</b>	<b>Ch 3</b>
3	Ch 4	Ch 4: <ul style="list-style-type: none"> <li>■ Critical Thinking - all</li> <li>■ Key Concepts – 1, 3, 5</li> <li>■ Exploring Online</li> <li>■ Market Research for Off-Centered Ales – Dogfish Head Brewery case</li> </ul>	<b>BizBuilder Worksheets</b> -- <b>Cover Page</b> <b>Table of Contents (without pages)</b> <b>Exec. Summ. through “C”</b> <b>Mission, Vision &amp; Culture</b>	<b>Ch 4</b>
4	Ch 5	Ch 5: <ul style="list-style-type: none"> <li>■ Critical Thinking – 2, 3, 5, 7</li> <li>■ Key Concepts – 2, 3, 4, 5</li> <li>■ Application - all</li> <li>■ Exploring Your</li> </ul>		<b>Ch 5</b>

		Community - all ■ Dr. Farrah Gray case		
5	Ch 6	Ch 6: ■ Critical Thinking – 2, 4, 5, 6 ■ Key Concepts – 1, 3, 6, 7 ■ Application – 1, 2 ■ Exploring Your Community ■ The Nightmare – Mike the Mechanic case		<b>Ch 6</b>
6	Ch 7	Ch 7: ■ Critical Thinking – 2, 4, 5 ■ Key Concepts – 2 - 6 ■ Application ■ Exploring Online ■ The Importance of Cash case	<b>BizBuilder Worksheets</b> – <b>Exec. Summ. D-I Opportunity Analysis &amp; Research Marketing Strategy &amp; Plan</b>	<b>Ch 7</b>
7	<i>Midterm</i>  Ch 8	<i>Midterm</i>  Ch 8: ■ Critical Thinking – 4, 5, 7, 9 ■ Key Concepts – 1, 7, 8 ■ Exploring Online ■ Extreme Entrepreneurship Education, LLC case ■ Portland Freelancer’s Café case	<i>Midterm</i>	<i>Midterm</i>  <b>Ch 8</b>
8	Ch 9	Ch 9: ■ Critical Thinking – 1, 4, 5 ■ Key Concepts – 1, 4 ■ Exploring Online - 2 ■ Managing Cash – CakeLove and Love Café	(Teams may want to meet with the instructor to discuss progress)	<b>Ch 9</b>
9	Ch 10	Ch 10: ■ Critical Thinking – 1, 4 ■ Key Concepts – 1, 2 ■ Application - 2 ■ Exploring Online - 2 ■ Lee’s Ice Cream case		<b>Ch 10</b>

10	Ch 11	<p>Ch 11:</p> <ul style="list-style-type: none"> <li>■ Critical Thinking – 3, 7, 9</li> <li>■ Key Concepts – 1, 5, 6</li> <li>■ Exploring Your Community – 2 - 8</li> <li>■ Magnetic Poetry case</li> </ul>	<p><b>BizBuilder Worksheets- Executive Summary “J – K” Financial Analysis &amp; Projections Amount &amp; Type of Funds Requested</b></p>	Ch 11
11	Ch 12	<p>Ch 12:</p> <ul style="list-style-type: none"> <li>■ Critical Thinking – 2, 4, 6</li> <li>■ Key Concepts – 2</li> <li>■ Application Exercises - 2</li> <li>■ Exploring Your Community</li> <li>■ Small Parts Manufacturing case</li> <li>■ Sewing Up Business in New Ways case</li> </ul>		Ch 12
12	Ch 13	<p>Ch 13:</p> <ul style="list-style-type: none"> <li>■ Critical Thinking – 1, 3, 7</li> <li>■ Key Concepts – 2, 4</li> <li>■ Application - 3</li> <li>■ In Your Opinion</li> <li>■ Growing the Team case</li> <li>■ Malden Mills case</li> </ul>		Ch 13
13	Ch 14	<p>Ch 14:</p> <ul style="list-style-type: none"> <li>■ Critical Thinking – 3, 4</li> <li>■ Key Concepts - 2</li> <li>■ Application</li> <li>■ Exploring Online</li> <li>■ Growth Through Franchising case</li> <li>■ Ben &amp; Jerry’s case</li> </ul>	<p><b>BizBuilder Worksheets – Exec. Summ. “L, M” Management &amp; Operations</b></p>	Ch 14

14	Appendix 2: Sample student business plan	No additional exercises due. Students should be finalizing BizBuilder Worksheets to create the final business plan.	<b>BizBuilder Worksheets</b> – <b>Exec. Summ. “N”</b> <b>Company Description</b> <b>Exit Plan</b> <b>Milestones</b> <b>and sample student</b> <b>plan from BizBuilder</b>	<b>BizBuilder</b> <b>Presentation</b> <b>Template</b>
15	Team presentations	BizBuilder on Web site: How to Transfer Data from BizBuilder to Business Plan Pro.	Student presentations and written plans due.	<b>BizBuilder</b> and <b>Business</b> <b>Plan Pro CD</b>

# UNIT 1

## Chapter 1 Entrepreneurs Recognize Opportunities

### Teaching Resources

#### PPT Lecture Slides for Chapter 1

#### Outside the Classroom:

[www.sbaonline.sba.gov](http://www.sbaonline.sba.gov): The Small Business Administration (SBA) is a government agency that supports and promotes entrepreneurs. The SBA offers free or inexpensive pamphlets on a variety of business subjects. Some local offices offer counseling to small business owners through SCORE or the SBDC system.

[www.eonetwork.org](http://www.eonetwork.org): Entrepreneurs Organization provides learning and networking opportunities worldwide for young entrepreneurs.

[www.zeromillion.com](http://www.zeromillion.com): This site, run by *Zero to One Million* author Ryan Allis, provides resources for young entrepreneurs, a networking list of contacts called The Entrepreneurship Directory, discussion forums, and links to articles and courses.

*Entrepreneur* magazine

Subscriptions: [www.entrepreneur.com](http://www.entrepreneur.com)

MIT Entrepreneurship Center

<http://entrepreneurship.mit.edu>

*The Concise Encyclopedia of Economics*

<http://www.econlib.org/library/Enc/Entrepreneurship.html>

### Chapter 1 Outline

- I. Explain what entrepreneurs do.
  - A. Entrepreneurs start their own businesses and work for themselves.
  - B. Entrepreneurs recognize opportunities to start businesses that other people may not have noticed.
- II. The entrepreneur shifts economic resources from an area of lower productivity and into one of higher productivity and greater yield. By doing this, entrepreneurs add value to scarce (limited) resources.
- III. Describe how free-enterprise economies work and how entrepreneurs fit into them.
  - A. The free-enterprise system is based on voluntary exchange. Voluntary exchange is a transaction between two parties who agree to trade money for a product or service. Both parties agree to the exchange because each benefits.

- B. The free-enterprise system encourages entrepreneurs who use resources efficiently to satisfy consumer needs—by rewarding them with profit.
- IV. Find and evaluate opportunities to start your own business. The five roots of opportunity:
- A. Problems that your business can solve
  - B. Changes in laws, situations, or trends
  - C. Inventions of totally new products or services
  - D. Competition. If you can find a way to beat the competition on price, location, quality, reputation, reliability, or speed, you can create a very successful business with an existing product or service.
  - E. Technological Advances. Scientists may invent new technology, but entrepreneurs figure out how to sell it.
- V. Explain how profit works as a signal to the entrepreneur.
- A. Profit is the sign that an entrepreneur has added value to the scarce resources he or she is using.
  - B. Not making a profit is a sign that the entrepreneur is not using resources very well and is not adding value to them.
- VI. A business opportunity is an idea plus three characteristics:
- A. It is attractive to customers.
  - B. It will work in your business environment.
  - C. It can be executed in the window of opportunity that exists.
- VII. Use cost/benefit analysis to make decisions.
- A. Cost/benefit analysis is the process of comparing costs and benefits in order to come to a good decision.
  - B. Cost/benefit analysis can be inaccurate without including opportunity cost. This is what you're giving up in your "next-best investment."
- VIII. Use SWOT analysis to evaluate a business opportunity.
- A. *Strengths*: All of the capabilities and positive points that the entrepreneur has, from experience to contacts. These are internal to the organization.
  - B. *Weaknesses*: All of the negatives that the entrepreneur faces, such as lack of capital or training, or failure to set up a workable accounting system. These are internal to the organization.
  - C. *Opportunities*: Any positive external event or circumstance (including lucky breaks) that can help the entrepreneur get ahead of the competition.

D. *Threats*: Any external factor, event, or circumstance that can harm the business, such as competitors, legal issues, or a declining economy.

## Teaching Notes

### **Class Discussion Ideas:**

1. Write on the board or pose aloud the following: What are three things you think others would say that you can “do” particularly well?
2. Ask the students to visualize: What kind of life do I want? How can I make my community a better place?
3. Write on the board or project on an overhead the following quote, and ask the students to rewrite or explain it in their own words and/or give an example of it: “The people who get on in this world are those who get out and look for the circumstances they want and, if they can’t find them, make them.”
4. Inform the students that “entrepreneur” is not a social or financial category but a state of mind that focuses on seeking out opportunities, taking action, and finding ways to solve other people’s problems in a profitable way. Ask students to think about and name entrepreneurs they know, such as small businesspeople in the neighborhood. Can they think of ways these local entrepreneurs saw problems as opportunities and solved those problems in a profitable way? Can students think of a time when they were entrepreneurial in this way?
5. Elicit from students meanings of the word *free*. Stress that, in the case of the term “free enterprise,” it means that anyone may start, own, or sell a business (“enterprise”); may sell goods and services for whatever price they can get for them; and may spend their money and invest their assets as they choose. Invite students to share opinions about a free-enterprise economy, both the advantages (such as freedom to succeed, reward for initiative, no interference from others) and disadvantages (such as financial risk and personal responsibility).
6. Ask students for their definitions of *opportunity*. How is an opportunity different from a problem? (An opportunity is viewed more positively than a problem and considered a situation an individual can do something about. Opportunity is more a matter of attitude toward potential problems than the scenario itself.)
7. Ask what opportunities an employee generally has. (Examples: training, promotions, raises—but all decided by someone else.) Ask what opportunities an entrepreneur has. (Examples: growing the business, learning skills, meeting new people, creating wealth based on his/her own and/or the market’s goals and needs.) Ask what an employee owns in his/her job. Ask what an entrepreneur owns.
8. Summarize the differences between ownership, as it implies that something belongs to you, and *tenancy*, which implies you can use something belonging to others with their permission. Use examples to make this difference more concrete. Create a two-column chart on the board comparing different aspects of home ownership vs. renting, and business ownership vs. employment. Emphasize the point that ownership often means that you delay rewards until some point in the future (e.g., you don’t get paid for your

efforts right away, the way you do with employment) but that the rewards are often bigger (e.g., you get the company's profits, not a salary or wages, and can perhaps sell the company for a lot more money than you could've earned in wages as an employee).

### **Class Activity Ideas:**

1. Direct students individually or in small groups to brainstorm problems they see in society, their neighborhoods, the school, or their own lives. After a few minutes, ask each student or group to choose one problem. How could it be turned into an opportunity—a product or service that might help solve the problem? Have students/groups present their ideas to the class.
2. Ask each student to come up with one profession or occupation he or she is considering as a career. Group students based on jobs/businesses that are in similar interest groupings or in comparable industries: for example, working with numbers (accounting, insurance), or in entertainment (actor, musician), or scientific careers. Give each group a few minutes to brainstorm ways to turn the career into a business opportunity so that students could work for themselves. How might they think about their interests in terms of entrepreneurship? Have each group briefly share its ideas.
3. *Guest Speaker Panel.* Invite several local entrepreneurs to serve as panel members for a discussion of the benefits and challenges of entrepreneurship. Consider inviting an entrepreneur from each major type of business (manufacturing, wholesale, retail, service). Try to match the demographic characteristics of the panel to your class (e.g., women, African Americans, Hispanics, Asians) and to include entrepreneurs from different age groups. Prep the panel members to be able to give a brief overview of their respective businesses (product/service description, type of business, when started, annual sales, etc.) and discuss why they became entrepreneurs, what they see as the main benefits of entrepreneurship, what their greatest challenges have been, what their goals are, etc. Have students come up with lists of additional questions before the speakers arrive.
4. Invite students to visit <http://www.yahoo.com> and <http://www.google.com> and conduct a comparative SWOT analysis of the two search engine competitors. Which should the class invest in? Why?

### **Suggested Answers for Critical Thinking Exercises**

1. What would be the best thing about owning your own business? What would be the worst?

**Answers will vary with students. Encourage students to write complete sentences and use paragraphs to clearly convey and organize their thoughts.**

2. Identify three non-financial benefits of entrepreneurship that might be important to you. Write a paragraph about each.

**Answers will vary with students. Non-financial benefits might include self-esteem, satisfaction, excitement, etc.**

3. If you were to start a business, what would be your opportunity cost? In other words, what is the next-best use of your time? How much money could you make working at a



job, instead? The answer to this question will give you a rough idea of how to value your time when you start a business and have to figure out how much to pay yourself.

**My opportunity cost would be the cost of other activities that I could pursue during that time. My time is worth approximately \$\_\_\_\_\_ per hour.**

4. Describe an idea for a business that you have. Explain how it could satisfy a consumer need.

**Example: I plan to start a business called “Oldies but Goodies DJ Service.” Customers will hire me to DJ at special events including family reunions, retirement parties, birthdays, and anniversary celebrations. Oldies but Goodies will specialize in playing Motown-era music from the 1960 and 70s. My business will cater to older customers who enjoy this period and style. I will deliver my DJ services directly to my clients. When I am hired to play at a party, I will transport all of my equipment and music to the event.**

**Many DJs focus on playing the latest, most cutting-edge tracks, but older customers do not value this feature. I will be satisfying my customers’ need to hear the music they enjoy most. Oldies but Goodies will offer its customers a fun-filled, nostalgic musical experience that they can share with their friends and relatives.**

5. Explain how a business opportunity differs from a business idea.

**Not all business ideas can be turned into successful businesses, because they might not meet a customer need. A business opportunity is a business idea that also meets a customer need.**

6. Give an example of a change that has occurred or is about to occur in your neighborhood. Discuss any business opportunities this change might create.

**Student’s examples should stem from a change in laws, situations, or trends. Example: I live in a hip and trendy neighborhood of young people. Lately, I’ve noticed that many people in my neighborhood are starting families. Business opportunities created by this change might include day-care and babysitting services, diaper-delivery services, and mother’s helper services.**

7. List five business opportunities in your neighborhood and the need(s) or want(s) each would satisfy. Determine whether each opportunity you describe is internal, external, or a mix.

Business Opportunity and Type:

Need(s) or Wants Satisfied:

1. (Example) a cafe/bookstore  
(external)

1. a place where teenagers can hang out  
because it doesn’t serve alcohol

2. \_\_\_\_\_

2. \_\_\_\_\_

3. \_\_\_\_\_

3. \_\_\_\_\_

4. \_\_\_\_\_

4. \_\_\_\_\_

5. \_\_\_\_\_

5. \_\_\_\_\_

**Suggested Answers for Key Concepts Questions**

1. Define “small business.”

**A small business has fewer than 100 employees and has less than \$5 million in annual sales.**

2. Explain how profit works as a signal to the entrepreneur.

**When a business earns a profit, it tells the entrepreneur that he or she has made good decisions about how to use scarce resources to meet consumer needs.**

3. Do you agree that it will probably take about three months for your business to start earning a profit? Why or why not?

**Yes, because at first my business will have to spend money to buy or create products and to advertise to attract customers.**

4. Describe three things you have learned about capitalism.

- **Capitalism is an economic system in which anyone is free to start a business.**
- **In a capitalistic society, the government does not set prices for most goods and services.**
- **Capitalism is based on voluntary exchange.**

5. Visit the Small Business Administration for brochures and other materials. Find an office in your area or visit <http://www.sba.gov>.

**Suggested Answers for Application Exercises**

Have a conversation with a friend or relative...etc. (See page 24 in text for entire exercise.)

**Students should fill out checklists for three business opportunities they generate by talking with a friend or relative and then supply a cost/benefit analysis for each.**

1. Use the checklists below to critically evaluate your three business ideas as opportunities.

**Business Idea**

**Critical Evaluation**

\_\_\_\_\_  
Would it be attractive to potential customers?

Yes\_\_\_ No\_\_\_

Would it work in your business environment?

Yes\_\_\_ No\_\_\_

Is there a window of opportunity?

Yes\_\_\_ No\_\_\_

Do you have the skills and resources to create this business?

Yes\_\_\_ No\_\_\_

If you do not have the skills and resources to create this business, do you know someone who does and might want to create this business with you?

Yes\_\_\_ No\_\_\_

### Business Idea

### Critical Evaluation

---

Would it be attractive to potential customers?	Yes___	No___
Would it work in your business environment?	Yes___	No___
Is there a window of opportunity?	Yes___	No___
Do you have the skills and resources to create this business?	Yes___	No___
If you do not have the skills and resources to create this business, do you know someone who does and might want to create this business with you?	Yes___	No___

### Business Idea

### Critical Evaluation

---

Would it be attractive to potential customers?	Yes___	No___
Would it work in your business environment?	Yes___	No___
Is there a window of opportunity?	Yes___	No___
Do you have the skills and resources to create this business?	Yes___	No___
If you do not have the skills and resources to create this business, do you know someone who does and might want to create this business with you?	Yes___	No___

### Exploring Your Community

Interview an entrepreneur in your community. Entrepreneurs are busy people, but most are willing to spend time talking with someone who is interested in what they are doing. Meeting over a meal might be the most efficient use of the entrepreneur's time. Before the interview, brainstorm ten questions in the four categories below. If you have the individual's permission, tape the interview. After the interview, be sure to write a thank-you note.

- Information gathering:* Open the interview with questions about the entrepreneur's family (any other entrepreneurs?) and educational and work background.
- About the business:* Next, ask questions about how the business was started. How did the entrepreneur recognize an opportunity and develop it?
- Running the business:* Ask about what problems came up as the business got under way and how they were solved..
- Reflection*—Ask the entrepreneur to reflect on his or her experience. What advice would he or she give to an aspiring entrepreneur? Has running a business been rewarding?

**Student answers will vary according to whom they interview, but they should reflect understanding of what motivates entrepreneurs and how they decide to start businesses.**

## **Exploring Online**

Visit an Internet search engine, such as [www.google.com](http://www.google.com), [www.yahoo.com](http://www.yahoo.com), [www.dogpile.com](http://www.dogpile.com), [www.Altavista.com](http://www.Altavista.com), [www.HotBot.com](http://www.HotBot.com), [www.Lycos.com](http://www.Lycos.com) or [www.MSN.com](http://www.MSN.com). Search for one of the following sets of terms: business ideas, businesses for sale, or franchise opportunities. For the search that you selected answer the following:

1. Search engine and term used
2. Number of matches, or “hits”

Next, find a site that looks promising and answer these questions:

1. What is the website (URL and name)?
2. Who is sponsoring the Web site?
3. Is the Web site selling a product or information (as a primary function, not through banner ads)? If so, what?
4. Identify three businesses or ideas from the site and state why they may or may not be viable opportunities.

**Each answer will differ but should demonstrate completion of each aspect that was needed.**

## **Suggested Answers for Chapter 1 Case Studies**

### **Short Case Study Analysis**

1. What unmet needs of the customer or conditions in the car-buying process contributed to the early success of Autobytel?

**Customers needed to be able to hunt for bargains more easily and to shop in a hassle-free environment.**

2. Do you think Peter Ellis thought through the Autobytel idea well enough before he launched the business?

**I think he failed to analyze the competition and potential competition enough before he launched his business, and therefore he didn't have any strategies in place to distinguish Autobytel from the competition that quickly entered the market.**

3. Is there a future for Autobytel? What might that future look like?

**If Autobytel can prove that it can do a better job for GM than any other competing partners, then the future looks bright for Autobytel.**

### **Long Case Study Analysis**

1. List the things that David Neeleman did to assess whether or not his plan for JetBlue was actually a good business opportunity.

**Neeleman thought about consumer needs every step of the way while he was imagining how JetBlue would operate. This helped him come up with ideas that were also opportunities to solve consumer needs, such as lowering fares on popular routes, removing the Saturday-night-stay requirement, and rewarding customers for purchasing tickets online.**

2. If you had been in Neeleman's shoes, what else would you have done to research this business opportunity?

**I would have looked more into the needs of business travelers to stay in communication with their offices and customers and found ways to provide in-flight Internet service.**

3. List the problems Neeleman identified that he wanted to solve with his business idea?

**The problems he identified included unpleasant in-flight meals, lack of in-flight entertainment, uncomfortable seats, high prices, and insufficient flights to desirable destinations.**

4. Would you describe Neeleman's business idea as an internal opportunity or an external one or both? Explain your answer.

**His idea was a mix of his internal need to be in charge of a business, as opposed to an employee, and his external understanding of the needs of airline consumers.**