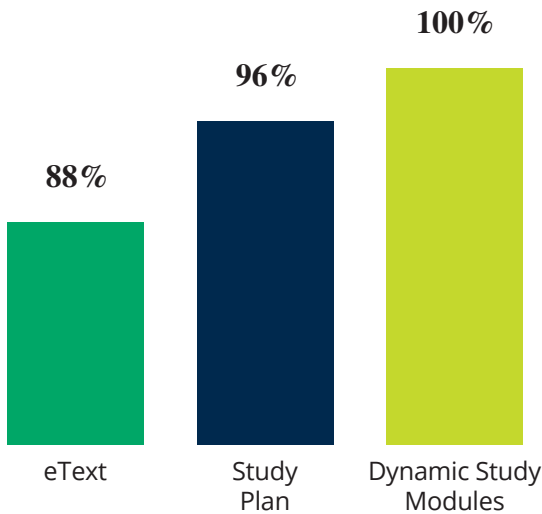


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ENTREPRENEURSHIP: STARTING & OPERATING A SMALL BUSINESS

Fifth Edition

Steve Mariotti • Caroline Glackin



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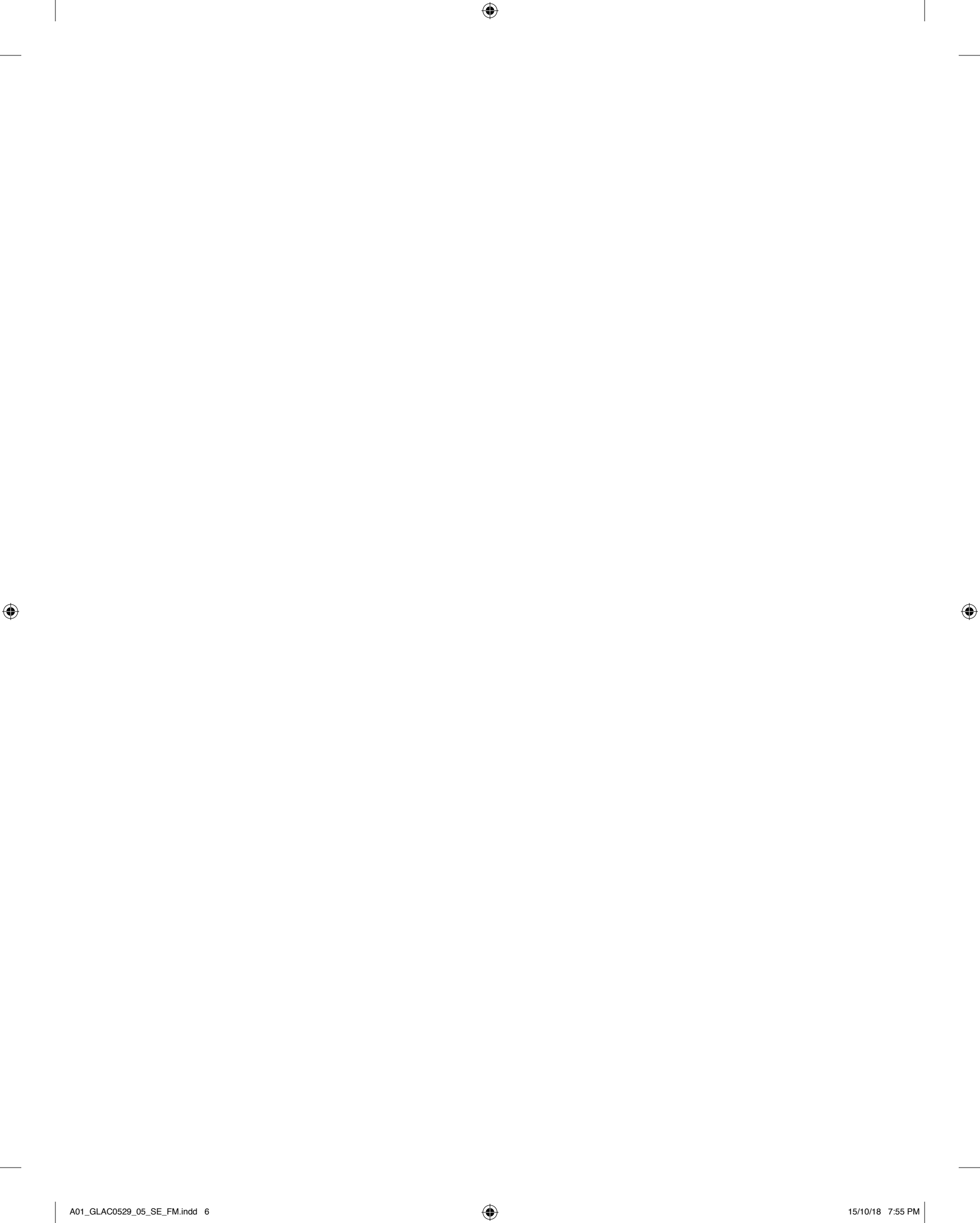
Also to my mother, Nancy Mason Mariotti,
who taught me that a great teacher can affect eternity.

—*Steve Mariotti*

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To my parents, Howard and Maria Wiedenman,
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of education, my love and gratitude.

—*Caroline Glackin*



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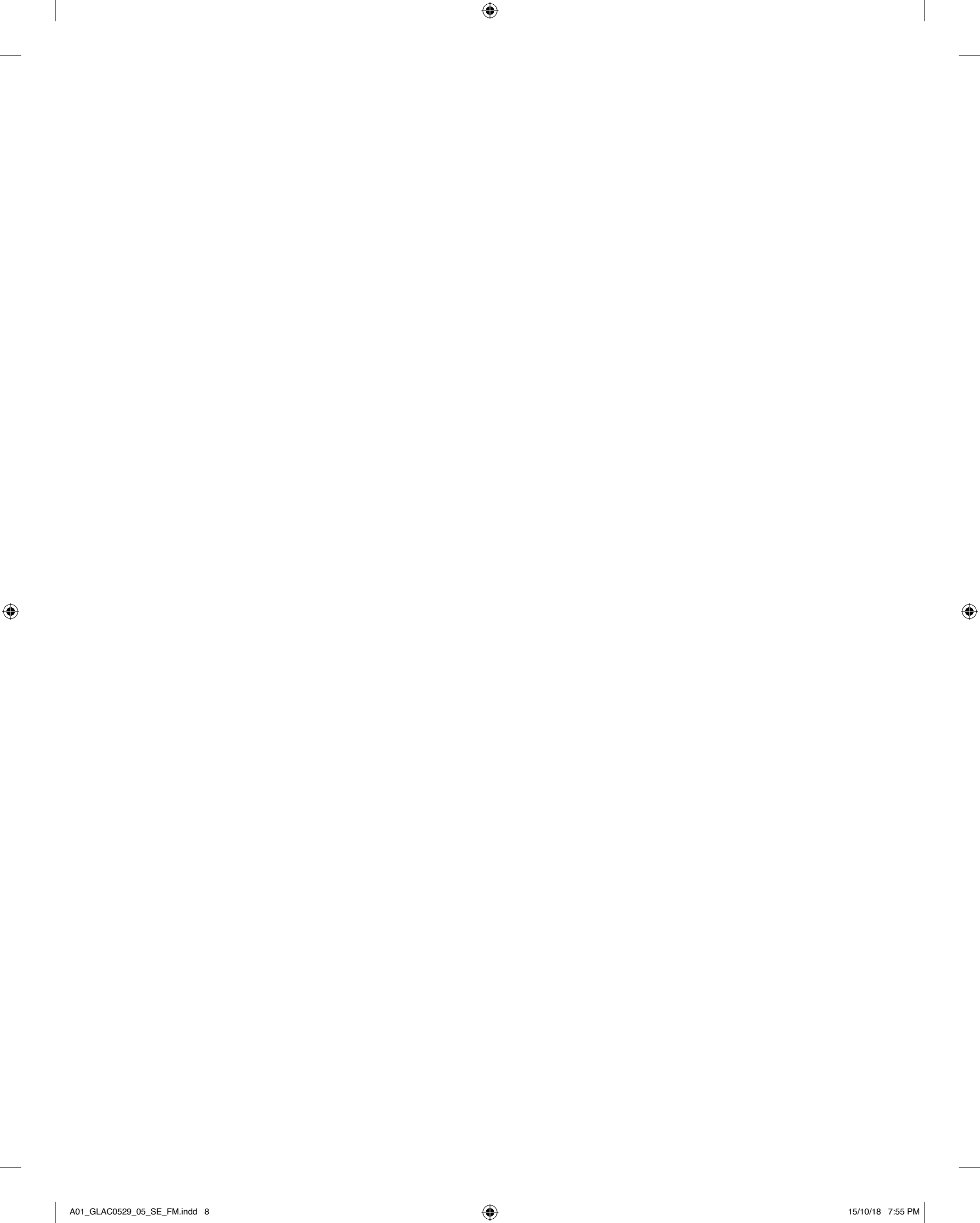
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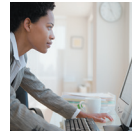
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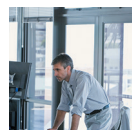
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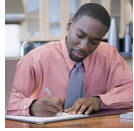
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Preface

New To This Edition

Entrepreneurship: Starting and Operating a Small Business, Fifth Edition, contains substantial new content and changes, including the following:

- Chapter Learning Objectives. The objectives have been revised to conform more fully to the categories of knowledge acquisition, comprehension, application, analysis, synthesis, and evaluation commonly assessed in higher education. Each learning objective is associated with a primary chapter topic.
- Three new short End-of-Chapter Case Studies: Frankie Patterson, MekaMon Robots, eSight Eyewear. Numerous updated cases with the Bakery Companies most revised.
- Four new longer End-of-Chapter Case Studies: Traci Lynn Jewelry, Hammer & Nails, Green and Clean, and Scentsy. Numerous updated cases with Foursquare Swarm the most revised.
- Step into the Shoes, Entrepreneurial Wisdom, BizFacts, and Global Impact Features have been updated and expanded with 10 new featured items, including eight Step into the Shoes, one Global Impact, and one BizFacts.
- Global Impact Features. Among the featured people and organizations are: Pixlee, Lit Motors, Pan Zhang Xin Marita, Gary Vaynerchuk, Burrow, Outcome Health, Chrysler Motors, SafeWander, Tom's, IQVIA, and Doublemint. These features connect chapter content to business facts and examples to reinforce learning.
- Business Model Canvas. The Osterwalder and Pigneur Business Model Canvas is introduced in Chapter 2. Students are encouraged to develop Business Model Canvases and to explore the Lean Start-up process.
- Canvas Connections. This feature has been added to facilitate the use of the customer discovery process and for students to create and evolve their Business Model Canvases as their knowledge and understanding increases.
- BizBuilder Business Plan Questions. These have been modified to clarify the work and connect the content to student work using the business plan templates.

New sections/topics

Each chapter has been substantially revised to include current content and address emerging topics in entrepreneurship and small business management. Some specific changes include:

- Discussion of necessity-based versus opportunity-based entrepreneurship
- Inclusion of an updated Readiness Assessment
- Addition of unicorns and an improved explanation of corporate entrepreneurship

- New section on skills and careers
- New section and illustration for the lean start-up methodology
- Revision of the business plan overview
- Update of the list of business plan competitions with the addition of pitch and business model competitions
- New section on effectual reasoning
- Addition of materials regarding the extended marketing mix and social media marketing with illustrations
- New section on creating a sales force
- Substantial revisions to the accounting and financial chapters for increased clarity and simplicity
- Address Enterprise Resource Planning (ERP)
- Inclusion of direct selling as a go-to-market strategy

Solving Teaching and Learning Challenges

Entrepreneurship: Starting and Operating a Small Business (ESOSB), Fifth Edition is the newest edition in a line of entrepreneurship textbooks written by Steve Mariotti, founder of the Network for Teaching Entrepreneurship (NFTE). Once again, it is written with professor and entrepreneur Caroline Glackin, and it promotes entrepreneurship as a career option for college students.

This textbook is organized to follow the life cycle of an entrepreneurial venture from concept through implementation into harvesting or replication. It is a comprehensive text written in light of the reality that college students often take only one course in entrepreneurship, and the topic is covered in a multitude of ways. For instructors who will teach the course as a “business plan,” *ESOSB 5e* offers step-by-step content to build a plan over a semester or a quarter, as well as cueing questions for students working through the Lean Start-up process.

Business students, as well as those from other disciplines, can benefit from *ESOSB*. For business students, it recasts their prior learning from a typical corporate context and focuses it on small and entrepreneurial enterprises. For students in such fields as hospitality, the arts, engineering, and fashion merchandising, the text introduces key business concepts and provides examples from a broad range of careers. Most importantly, *ESOSB 5e* is a balanced mix of the academic and applied components of entrepreneurship education. Students are introduced to the theories, methods, and knowledge and skills required of entrepreneurs and are immediately given practical examples and discussion opportunities. For those who focus on the management of small and entrepreneurial ventures, there is an abundance of high-quality material on the critical topics of management, human resources, marketing, and operations for such ventures. For those charged with teaching a comprehensive introductory course, all of the components are provided.

To improve student results, we recommend pairing the text content with **MyLab Entrepreneurship**, which is the teaching and learning platform that empowers you to reach every student. By combining trusted author content with digital tools and a flexible platform, MyLab personalizes the learning experience and will help your students learn and retain key course concepts while developing skills that future employers are seeking in their candidates. From **Mini Sims** to **Dynamic Study Modules**, MyLab Entrepreneurship helps you teach your course, your way. Learn more at <http://www.pearson.com/mylab/entrepreneurship>.

The **Study Plan** gives students personalized recommendations, practice opportunities, and learning aids to help them stay on track.

This allows students to focus their study time by pinpointing the precise areas they need to review, and allowing them to use customized practice and learning aids—such as videos, eTexts, tutorials, and more—to help students stay on track.

Study Plan

RecommendationsProgressAll Chapters

Practice the learning objectives, then take a Quiz Me to prove mastery and earn mastery points (MP).

Recommended learning objectives

1.1 Summarize what entrepreneurs do.

PracticeQuiz Me

1.2 Examine how free-enterprise economies work and how entrepreneurs fit into them.

PracticeQuiz Me

1.3 Identify and evaluate opportunities to start your own business.

PracticeQuiz Me

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

PracticeQuiz Me

2.1 Describe a feasibility analysis and choose when to create one.

PracticeQuiz Me

Mini Sims put students in professional roles and give them the opportunity to apply course concepts and develop decision-making skills through real-world business challenges.

The simulations use each student’s decisions to create various scenario paths that help them understand the impact their decisions can have on an organization.

Entrepreneurship

MY PROGRESS - 7%

Decision Point: Starting Your Business

You've done research on the competition in the area, and you worked franchise during college, so you're not entirely unfamiliar with the bus know you've got a lot to learn, and you want to make the right decision business a success.

Which of the following should you do first?

Select an option from the choices below and click **Submit**.

File articles of incorporation.

Hire employees.

Write the business plan.

Lease the location.

Obtain business financing.

Submit

Previous

Next

Entrepreneurship


MY PROGRESS - 0%

Learning Objectives

At the end of this exercise, you should be able to:

- LO 3.1: Define your business.
- LO 3.2: Articulate your core beliefs, mission, and vision.
- LO 3.5: Calculate the value of a business.

Scenario



You have unexpectedly inherited \$200,000 from your late uncle and have decided that it's time to stop "working for the man." You've always envisioned owning a sandwich shop near campus, and this unexpected inheritance can help you make that dream a reality.


Can you meet the challenges, make the right decisions, and make your entrepreneurial dreams come true?

Click **Next** to begin your challenge. Good luck!

About This Simulation

Previous

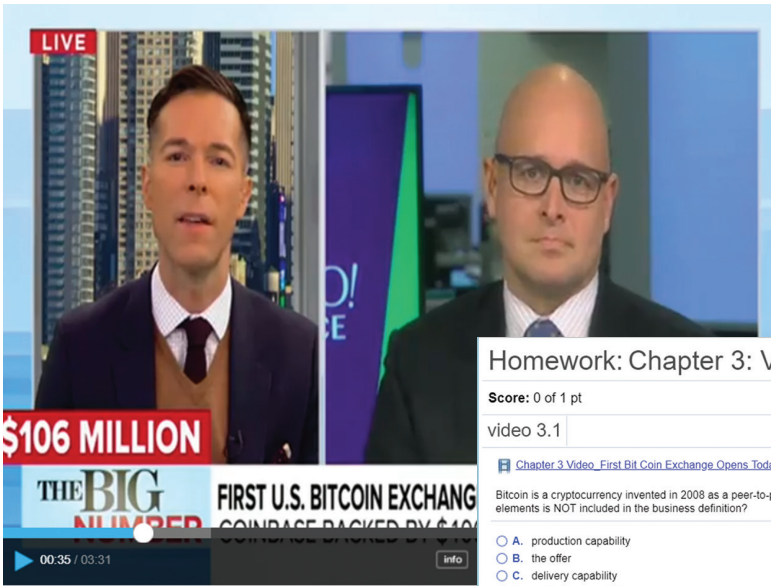
Next



Dynamic Study Modules use the latest developments in cognitive science and help students study chapter topics by adapting to their performance in real time.

Video Exercises are available for select chapter topics to help engage students and hold them accountable for their learning.

LIVE



00:35 / 03:31

info

Homework: Chapter 3: Video: First Bit Coin Exchange Opens Show completed

Score: 0 of 1 pt

1 of 5 (0 complete)

HW Score: 0%, 0 of 5 pts

video 3.1 Question Help Settings

Chapter 3 Video: First Bit Coin Exchange Opens Today 3:31 mins

Bitcoin is a cryptocurrency invented in 2008 as a peer-to-peer electronic cash system. Before Bitcoin was developed, it had to be defined. Which of the following elements is NOT included in the business definition?

☐ A. production capability

☐ B. the offer

☐ C. delivery capability

☐ D. marketing capability

☐ E. production capability

Click to select your answer and then click Check Answer.

All parts showing

Clear All

Check Answer

Chapter Learning System

One of the challenges faced by the instructors is to create an authentic experience for the students. This text provides the below tools that help students to learn to think as an entrepreneur.

Honest Tea Business Plan

This is the plan developed by founders Seth Goldman and Barry Nalebuff during Honest Tea’s first year of operations. It appears following Chapter 2 and includes a comprehensive market analysis and detailed historical financials. The business raised over \$1 million at a time when sales were less than \$250,000 and the company had operating losses. The Honest Tea plan is an excellent example for students and one that many of them will understand, to some extent, as customers of bottled tea.

The tea is brewed at a brewing and bottling facility located within driving range of the target market. The site was selected based on numerous criteria including capacity, reputation, quality control, production efficiency and willingness to invest in a long-term partnership with Honest Tea. All partners involved in the production process meet United States Department of Agriculture Hazard Analysis Critical Control Plant (HACCP) standards. We are in the process of obtaining Kosher certification from the Orthodox Union ("Circle U").

In early 1999 we will be making a change in our manufacturing process that will not affect the quality of the product but will have important ramifications for our profitability. Instead of a two-step packaging process, we will consolidate the brewing and labeling under one roof. This consolidation will save Honest Tea more than two dollars a case.

Our tea leaves are provided by internationally known companies that specialize in tea buying, blending and importation. Our primary source is Hälssen & Lyon of Germany, the largest specialty tea company in the world. Another, Assam Tea Traders, has direct ties to tea estates in the Assam District of Northern India. are in plentiful supply.

Dealing more directly with the tea at we can verify that the labor conditions and International Labor Organization that the tea is grown organically.

Path for Quality Bottled Tea

...e fueling demand for Honest Tea refreshment beverage market.

...m in Natural Foods

Rise of Cultural Creatives

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Honest Tea, Inc.

Chapter Openers Set the Stage

Each chapter starts with an inspirational quote, an introduction, and learning objectives that provide a “road map” so readers know where they are headed. Readers connect with a story of a real business in the opening vignette that sets the stage for upcoming material.

“Step into the Shoes” of the Experts

Step into the Shoes features appear in each chapter and offer insight into the business practices of entrepreneurs and an opportunity to discuss the brief example. This feature brings the content to life with real-world application.

Step into the Shoes ...

Matching Employers and Employees—Indeed

With over 200 million unique visitors per month, Indeed, a subsidiary of Recruit Holdings Co., Ltd., claims the top spot among job sites on the Internet.³ Founded in 2004 by Rony Kahan and Paul Forster, Indeed has offices in six U.S. cities and nine global cities. The service covers some 60 nations and 28 languages.

Indeed is a pay-for-performance recruitment advertising network that provides free access to jobs from company websites and job boards. It consolidates available openings into a single meta-search for job

seekers. Employers pay for the service when job seekers click on job openings.

Prior to founding Indeed, Kahan and Forster were successful cofounders of jobsinthemoney.com, a site for financial professionals. They sold it to Financial News in 2003 and founded Indeed a year later.

³Indeed.com, accessed March 30, 2018, <http://www.indeed.com/intl/en/ourcompany.html>.



Creatas/Thinkstock/Getty Images

BizFacts

BizFacts impart useful information regarding entrepreneurship statistics, company practices, or business applications.

BizFacts

Many salespeople work on *commission*, a percentage earned from each sale they make. A salesperson making a 10 percent commission selling cars, for example, would earn \$1,000 after selling a \$10,000 car.

$$0.10 \times \$10,000 = \$1,000$$

Entrepreneurs can use commissions to motivate sales staff. When you are starting out and cannot afford to pay sales representatives full-time salaries, you can offer commissions instead, because they get paid as you get paid and earn more as they sell more.

Entrepreneurial Wisdom

Entrepreneurial Wisdom contains insights or advice that will help students in the preparation of a business plan or management of an enterprise.


Entrepreneurial Wisdom ...

Accounting Differences between Countries

Businesses in different countries prepare and present the income statement differently and even have different names for it. In the United Kingdom, for example, the income statement is called a "group profit and loss account." Topics where global practices can differ widely include inventory measurement methods and ways in which property and equipment are valued. Countries also have varying laws regarding when a sale can be recognized as income and included on an income statement. The predominant standards are the International Financial Reporting Standards.

In the United States, United Kingdom, Denmark, Norway, Belgium, Brazil, and Japan, for instance, income from a long-term contract can only be included on the income statement as each percentage of the contract is completed. If you have done

10 percent of the work, you can show 10 percent of the income on your statement. In Germany, by contrast, you cannot include any of the income on your statement until the contract has been 100 percent completed.



Accounting rules differ among countries.
(Michaela Dusiková/Alamy)

Global Impact

Global Impact, featured in each chapter, provides examples of entrepreneurial ventures around the world or information that can be applied in global trade.

Global Impact . . .

College Degrees for the Military

Active-duty members of the U.S. military and their families tend to relocate frequently, often internationally. This job-related relocation makes completing a college degree at a single traditional brick-and-mortar, four-year college difficult at best.

American Military University is a wholly online, private, for-profit, degree-granting program with students across the United States and in more than 100 other countries. Established by a retired Marine Corps officer, James P. Etter, the university has a well-defined target market: military members and their families.

Course delivery, subjects, and content are designed with the military in mind. If they have Internet access, military students can enroll and take courses. Also, military personnel earn education benefits from the government and can use them at American Military University.

American Military University has served its global target market profitably for over 20 years.

Source: American Military University website, accessed February 24, 2018, <http://www.apus.edu>.

End-of-Chapter Learning Portfolio

End-of-chapter materials help students demonstrate a working understanding of key concepts and develop critical-thinking skills.

All chapters include the following:

- **Key Terms** list.
- **Critical Thinking Exercises** that require students to consider important issues and support thoughtful responses.

- **Key Concept Questions** that review core topics.
- **Application Exercises** that give students a structured opportunity to reinforce chapter topics through experience.
- **Exploring Your Community and Exploring Online** assignments that invite students to go into their business communities or search online for information.
- **Canvas Connections**, which provide guidance for students as they evolve their Business Model Canvases during the course of the text.
- **BizBuilder Business Plan Questions**, which guide students through the development of business plan components as they learn new information throughout the book.
- **Cases for Analysis**, including one short case and one longer case with analytical questions. Cases cover a variety of issues and draw on real business scenarios. Examples of businesses that may be familiar to students include Foursquare Swarm, Urban Decay, and Amazon.com. Other organizations that may be less familiar include Happy Belly Curbside Kitchen, Gelato Fiasco, Anago Cleaning Systems, and AYZH. These cases reflect a diverse set of entrepreneurs, industries, and geographic locations.

BizBuilder Business Plan Worksheets and Templates

Students can build their business plans using the BizBuilder worksheets available at www.pearsonhighered.com under Instructor resources.

- **BizBuilder Business Plan Worksheets** provide step-by-step instructions on building a business plan.
- **BizBuilder Business Plan Template** provides a professional-looking format for a business plan that ties in with assignments in the text.
- **BizBuilder Business Plan Presentation Template** guides the student through the process of creating a PowerPoint presentation for a business plan.

The BizBuilder business plan worksheets and templates are accompanied by a **financial worksheet** template to enable students to calculate respective results by plotting relevant data in different worksheets like startup, sales income statement, cash flow, balance sheet, alt. cashflow, and key ratios.

Appendix 2 provides students with instructions on how to use the worksheets that mirror the planning process in the book and contains more questions in some areas than are found in commercially available planning software.

Developing Employability Skills

The purpose behind writing this text was to enable students to take an idea and turn it into an entrepreneurial venture. While working on this their emphasis should be on imagination, design, creation and execution. Creating a business plan requires the student to develop competencies, knowledge, abilities, attitudes, and important skills. The text along with the MyLab helps in developing important skills. In this course, and specifically in this text, students will have the opportunity to develop and practice seven important skills based on various learning features that are summarized in the following table.

| Employability Skills Table | | | | |
|---------------------------------------|---|---|---|---|
| Skills | Sections in the text covering these skills | | | |
| Written and oral communication | End-of-chapter questions—critical thinking exercises | Creating and Presenting a business plan—Chapter 2 | EOC Writing Assignment—MyLab Entrepreneurship | Writing Assignment—MyLab Entrepreneurship |
| Critical thinking and problem solving | Critical thinking exercises | Process of developing a business plan—Chapter 2 | Video Exercises—MyLab Entrepreneurship | New! Mini Sims—MyLab Entrepreneurship |
| Teamwork and collaboration | Process of developing a business plan—Chapter 2 | Lean start-up process—Chapter 4 and Chapter 7 | Chapter 13, “Management, Leadership, and Ethical Practices,” addresses this topic in greater depth. | |
| Leadership | Chapter 13, “Management, Leadership, and Ethical Practices” | | | |
| Creativity | Chapter 1, “Entrepreneurs and Entrepreneurship” | Chapter 2, “Pathways to Success: Processes and Instruments” | Chapter 3, “Creating Business from Opportunity,” introduces creativity and the entrepreneurial mindset. | EOC Writing Assignment—MyLab Entrepreneurship |
| Ethics | Chapter 13, “Management, Leadership, and Ethical Practices” | End of Chapter—Case Studies | | |
| Information technology skills | End-of-chapter assignments—exploring online | | | |

Instructor Teaching Resources

This program comes with the following teaching resources.

| Supplements available to instructors at www.pearsonhighered.com | Features of the Supplement |
|--|---|
| Instructor’s Manual authored by Caroline Glackin | <ul style="list-style-type: none">• Chapter-by-chapter overview, objectives, and outline• New to the fifth edition• Teaching notes• Lecture enhancers• Key terms• Examples and activities not in the main book• Solutions to all questions and problems in the book |

| Supplements available to instructors at www.pearsonhighered.com | Features of the Supplement |
|--|--|
| Test Bank authored by Ramachandran Subramanian | Over 500 multiple-choice, true/false, and short-answer questions with these annotations: <ul style="list-style-type: none"> • Difficulty level (1 for straight recall, 2 for some analysis, 3 for complex analysis) • Type (Multiple-choice, true/false, short-answer, essay) • Learning objective • AACSB learning standard (Written and Oral Communication; Ethical Understanding and Reasoning; Analytical Thinking; Information Technology; Interpersonal Relations and Teamwork; Diverse and Multicultural Work; Reflective Thinking; Application of Knowledge) |
| Computerized TestGen | TestGen allows instructors to: <ul style="list-style-type: none"> • Customize, save, and generate classroom tests • Edit, add, or delete questions from the test item files • Analyze test results • Organize a database of tests and student results. |
| PowerPoints authored by Veronica Horton | Slides include all the graphs, tables, and equations in the textbook. PowerPoints meet accessibility standards for students with disabilities. Features include, but not limited to: <ul style="list-style-type: none"> • Keyboard and screen reader access • Alternative text for images • High color contrast between background and foreground colors |

Acknowledgments

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love and guidance. Thanks are due to all the other teachers, students, experts, and friends who were kind enough to look over my work and help me improve it. Finally, I want to thank my mother, Nancy, a wonderful special education instructor who showed me that one great teacher can affect eternity.

Steve Mariotti

To my coauthor Steve Mariotti, who brought hope, opportunity, and change out of adversity to create the Network for Teaching Entrepreneurship and started this journey—many thanks. As Steve noted, the team at Pearson has been wonderful to work with again. Faculty reviewers and faculty members who have contacted me directly regarding earlier materials are always a valued source of insights.

Most importantly, I appreciate the terrific entrepreneurs who shared their stories with me, including the good, the bad, and the downright ugly! Their interest in sharing their experiences with students and willingness to carve out time to tell their tales demonstrates the kind of energy and enthusiasm we associate with successful entrepreneurs. They have made this endeavor interesting and engaging.

On a more personal note, I would like to thank my “family” at the University of North Carolina System’s Fayetteville State University for their support and encouragement as I worked on *Entrepreneurship: Starting and Managing a Small Business, 5e*. Special thanks to Jay Azriel, Lynn Bible, Terri Hasson, Burcu Adivar, Connie Lightner, and Pam Jackson. Finally, to Elise and Spencer Glackin for being the best cheering section a mother could ever have—thanks and love to you both.

Caroline Glackin

About the Authors



STEVE MARIOTTI, founder of the Network for Teaching Entrepreneurship (NFTE), is considered one of today's leading experts in education for at-risk youth. In 1982, he changed career paths when he decided to leave the corporate sector and become a special education teacher in the New York City public school system.

Mariotti's first assignment was in the East New York section of Brooklyn, and his last was in the Fort Apache section of the South Bronx. During his six and a half years of teaching, Mariotti discovered he could successfully motivate even his most challenging students by teaching them how to run a business. This experience inspired him to create a new kind of program—the first to bring entrepreneurial education to low-income youth.

In 1987, Mariotti founded the NFTE. Today, NFTE's mission is to provide entrepreneurship education programs to young people from low-income communities around the world. NFTE's programs have a proven track record of success, and the network is widely viewed as the thought leader in the field. NFTE is an active member of the Council on Foreign Relations. In 2013, Mariotti traveled to Southeast Asia as a guest of the U.S. State Department on a mission to spread entrepreneurial education to youth from emerging economies in the region.

Mariotti was recently nominated for a Pulitzer Prize for his work chronicling the lives of entrepreneurs worldwide for *The Huffington Post* and for a Nobel Peace Prize for his pioneering work in entrepreneurial education. A life-long advocate for low-income students, Mariotti is the recipient of numerous awards, including:

- Ernst & Young Entrepreneur of the Year Award
- Bernard A. Goldhirsh Social Entrepreneur of the Year Award
- National Director's Entrepreneurship Award from the Minority Business Development Agency of the U.S. Department of Commerce
- Association of Education Publishers' Golden Lamp Award
- ACE/Currie Foundation Humanitarian—Venture Award
- America's Top High School Business Teacher

In addition, Mariotti has been the subject of many national media profiles on such programs as *ABC Evening News* and *20/20*.

He has authored and coauthored 34 books and workbooks on entrepreneurship, selling over 10 million copies worldwide and distributing many more for free to at-risk communities, including prisons. His popular book *The Young Entrepreneur's Guide to Starting and Running a Small Business* has recently been published in a new edition by Random House and is used to teach entrepreneurship from the United States to China, India, and the Middle East. Mariotti is a regular attendee and speaker at the World Economic Forum.

Raised in Flint, Michigan, Mariotti received his B.B.A. in business economics and his M.B.A. from the University of Michigan, Ann Arbor. He has also studied at Harvard University, Stanford University, Brooklyn College, and Princeton University. He started his professional career as a treasury analyst for Ford Motor Company before founding his own company, Mason Import/Export Services.



CAROLINE GLACKIN, PH.D., is a “pracademic” who has successfully worked as a microenterprise and small business owner and manager, as an executive director of a community development financial institution, and as an academic in areas of community development finance, entrepreneurship, and management. She is entrepreneurship faculty at Fayetteville State University (University of North Carolina constituent institution). She has been assisting entrepreneurs in achieving their dreams for over 30 years.

Dr. Glackin earned a doctorate from the University of Delaware, where her research emphasis was on access to capital and microfinance. She received an M.B.A. from the Wharton School at the University of Pennsylvania and an A.B. from Bryn Mawr College. Her professional career began with the DuPont Company, American Bell, Bell Atlantic, and American Management Systems. She has consulted for businesses and not-for-profit agencies in turnaround and high-growth situations. After exiting a family business, she became the executive director of a community development financial institution serving businesses and not-for-profits.

Dr. Glackin has succeeded in leading change in the practical fields of her research and has received numerous honors and awards. These include the first Gloeckner Business Plan Award at the Wharton School, the Minority Business Advocate of the Year for Delaware from the U.S. Small Business Administration, and the She Knows Where She’s Going Award from Girls Inc. Dr. Glackin cochaired the Delaware Governor’s Task Force for Financial Independence. She has participated in the Cornell University Emerging Markets Think Tank Series and has presented her research and pedagogy at numerous professional conferences.

