Small Business Management Launching and Growing Entrepreneurial Ventures 19th edition Longenecker Solutions Manual

SKU: 9780357039298-SOLUTIONS

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CHAPTER 1: THE ENTREPRENEURIAL LIFE

CHAPTER OUTLINE

Introduction

i) Owning a business is a noble profession—especially if it's done well.
ii) The richest rewards of owning a small business come from offering goods or services that improve the lives of others and developing an organizational culture that supports employees.

1-1 Small Size, Great Significance

LO1: Explain the importance of small businesses and entrepreneurship in our society.

U.S. Small Business Administration reports the following:

i) There are 27.8 million businesses in the United States with fewer than 500 employees. Small companies account for 99.7% of all businesses; 90% have fewer than 20 employees.
ii) Fifty-five million people work in small businesses, representing 49% of all employees and 42% of all salaries paid to employees.
iii) Small enterprises hire 43% of all high-tech employees (scientists, engineers, computer programmers, and others).
iv) Many small companies have gone global, representing 97% of all exporters.
v) The number of college students enrolling in small business and entrepreneurship classes has increased.

1-2 Small Business and Entrepreneurship Go Together

LO2: Describe what it means to be a small entrepreneurial firm.

1-2a What Is a Small Business?

i) To distinguish between small and large businesses, we naturally consider their relative size, but it is also helpful to think about a small firm's potential to grow.
   (a) Size – Can be determined based on such criteria as the number of employees, sales volume, amount of profit, and the size of the company's assets, but size standards are arbitrary and frequently adopted to serve a purpose.
   (b) Growth Potential
      1. Microbusinesses (lifestyle businesses) – Businesses that provide modest returns to their owners but permit an owner to follow a desired lifestyle.
      2. Attractive small firms – Businesses that offer substantial financial rewards for their owners.
      3. High-potential ventures (gazelles) – Businesses that have phenomenal prospects for growth.
ii) For the purposes of this textbook, a small business meets the following criteria, at least in spirit:
   (a) Compared to the largest firms in the industry, the business is small; in most instances, it has fewer than 100 employees.
   (b) Except for its marketing function, operations are geographically localized.
   (c) Financing for the business is provided by no more than a few individuals.

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(d) The business may begin with a single individual, but it has the potential to become more than a "one-person-show" and may eventually grow to be a mid-sized company or even a large firm.

1-2b What Is Entrepreneurship?

i) Entrepreneur – A person who relentlessly pursues an opportunity, in either a new or an existing enterprise, to create value while assuming both significant risks and the rewards for her or his efforts.

ii) Entrepreneurship involves four stages:

(a) Identifying an attractive opportunity.

(b) Acquiring the critical resources needed for growing the business.

1. Bootstrap – Efforts made by entrepreneurs such as resorting to bartering, generating income from other sources, or using a personal credit card.

(c) Executing the plan.

(d) Harvesting the business.

1-2c Entrepreneurs: Born or Made?

i) In their research on entrepreneurial characteristics on "desirable and acquirable attitudes and behaviors," Spinelli and Adams uncovered six descriptions:

- Leadership abilities
- Opportunity obsession
- Commitment and determination
- Motivation to excel
- Courage
- Tolerance of risk, ambiguity, and uncertainty
- Creativity, self-reliance, and adaptability

ii) Attitudes and behaviors entrepreneurs should avoid*:*

- Overestimate what you can do.
- Lack an understanding of the market.
- Hire mediocre people.
- Fail to be a team player.
- Be a domineering manager.
- Fail to share ownership in the business in an equitable way.

iii) Entrepreneurs are not cut out of a single mold, and their success generally arises from having a clear mission, a desire to lead, and the recognition that business success requires hard work and long hours.

1-2d Types of Entrepreneurs

i) Second-Stage Entrepreneurs

(a) Helpful to distinguish between entrepreneurs who start or substantially change companies and those who direct the continuing operations of established businesses.

ii) Franchisees

(a) Franchisees differ from other business owners due to having less independence. Because of the guidance and standardized systems provided by contractual arrangements with franchising organizations, franchisees function within the boundaries set by franchisors.

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iii) Social Entrepreneurs
   (a) Social entrepreneurship – Entrepreneurial activity with an embedded social purpose. In other words, social entrepreneurs come up with innovative solutions to society's most pressing needs, problems, and opportunities.
iv) Intrapreneurs
   (a) Intrapreneurship – A person who has characteristics similar to those of an entrepreneur, but who works within an existing, usually larger, corporation as an employee.
v) Entrepreneurial Teams
   (a) Two or more people who work together as entrepreneurs on one endeavor.
   (b) Able to use talents, skills, and resources of team.

1-3 Can a Small Company Really Compete with Big Companies?

LO3: Identify how small businesses can compete against the giants.

1-3a Integrity and Responsibility: In order to maintain a strong competitive advantage, it is essential that you add to good customer service and excellent product quality a solid reputation for honesty and dependability.

1-3b Customer Focus: Business opportunities exist for those who can produce products and services desired by customers. Having a small number of customers and a close relationship with them makes customer service a powerful tool for entrepreneurial businesses.

1-3c Quality Performance: Quality is mostly independent of firm size, but if there is an advantage, it most often goes to the smaller business.

1-3d Innovation: Innovation, both in products or services and in competitive strategies, is within reach of the small business in ways that were not thought possible a few years ago.

1-3e Niche Markets: Almost all small businesses try to shield themselves from competition by targeting a specific group of customers who have an identifiable but very narrow range of product or service interests and comprise what is called a niche market.

1-4 Motivations for Owning a Business

LO4: Understand what might motivate you to be a small business owner with all its risks and uncertainties.

i) Before you choose to enter the small business game, you need to think carefully about who you want to be and how owning a business will help make you that person.
ii) Understanding clearly why you want to own a small business and what motivates you is vital to eventually achieving fulfillment through your business.

1-4a Types of Entrepreneurial Motivations

i) Personal Fulfillment
   (a) Making a difference in others' lives, particularly customers, employees, and in the community.
   (b) Having a sense of belonging and working with others in a common cause.
ii) Personal Satisfaction
   (a) They feel rewarded in working with a product or providing a service and being good at it.
   (b) Entrepreneurs are energized by enjoyable associations within their businesses.

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(c) Entrepreneurs enjoy friendships with other business owners, frequently learning from one another.
(d) If they are visible within the community, small business owners can garner the respect of those who live there.

iii) Independence
(a) Being my own boss where I can make things happen.
(b) Controlling my own future.

iv) Financial Rewards
(a) Creating personal financial wealth based on sound decisions and hard work. When businesses are profitable, everyone benefits.
(b) In general, self-employed individuals are more likely to create greater personal wealth than persons who work for others.

1-4b Influencers in Deciding to Own a Business

i) Family and Friends
ii) The Desire to Leave a Difficult Situation
(a) Those who started or acquired small businesses because of financial hardship or other severely negative conditions have appropriately been called reluctant entrepreneurs.
(b) Corporate refugees – Individuals who flee the bureaucratic environment of a corporation that seems stifling or oppressive to them.

1-4c Why Your Perceptions Matter?

i) Knowing your motivation is important, but it's not enough. You also need to understand if your perceptions of what it takes to be successful in business are accurate.
ii) According to Stephen Covey, having a positive attitude or working harder is not enough. Instead, we have to change how we fundamentally see a situation, or what he calls a paradigm shift.
iii) Michael Gerber describes three paradigms (personalities):
(a) The Technician Personality – A steady worker, experiences at doing what he or she knows best.
(b) The Manager Personality – Pragmatic, assuming responsibility for the planning, order, and predictability of the business.
(c) The Entrepreneur Personality – Does not look at the work that a business does, but instead examines how the business does what it is intended to do.

1-5 What Do You Want Your Legacy to Be?

LO5: Discuss ways to build a successful business as part of your life legacy.

i) When an entrepreneur exits the business, he or she faces questions of reflection. An entrepreneurial legacy is established.
ii) Entrepreneurial legacy – Includes both tangible items and intangible qualities passed on not only to heirs, but also to the broader society.
iii) Structure of textbook material:
(a) Part 1 discusses the fundamental values of the entrepreneur.
(b) Parts 2 and 3 look at a firm's basic strategy, the various types of entrepreneurial ventures, and initial planning required for startups.
(c) Parts 4 through 6 deal with the marketing and management of a growing business, including its human resources, operations, and finances.

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ADDITIONAL DISCUSSION QUESTIONS

1. ***What is meant by the term* entrepreneur*?***
   Entrepreneur is a French term that dates back to the early eighteenth century. It refers to an individual who founds or starts a business firm. (The term also includes partnerships and entrepreneurial teams.) In this text, we extend the definition to include owner-managers who operate firms started by others. The characteristics of risk-taking and innovation are associated with the image of the entrepreneur.

2. ***Consider an entrepreneur you know personally. What was the most significant reason for his or her following an independent business career? If you don't already know the reason, discuss it with that person.***
   Answers will vary, of course. Students should know some entrepreneurs—parents, friends, or employers—quite well. The instructor might ask students first to explain the basis of their relationship with the entrepreneur and then to discuss their perceptions of that person's motivations.

3. ***What do you believe would be the two most desirable and undesirable qualities of an entrepreneur?***
   Answers will vary, of course.

4. ***The motivators/rewards of profit, independence, and personal fulfillment are the reasons that individuals enter entrepreneurial careers. What problems might be anticipated if an entrepreneur were to become obsessed with one of these rewards—for example, if he or she had an excessive desire for profit, independence, or a particular lifestyle?***
   A balanced perspective is needed. While each reward can give a strong motivation to build a good business, each also has some potential for creating havoc in an unbalanced life. An excessive desire for profit can lead to attempts to make short-run gains at the expense of long-run customer or employee relationships. It may also tempt one to lower ethical standards and to neglect family relationships. An excessive desire for independence may make one difficult to deal with in interpersonal relationships. Some degree of perceived interdependence between employer and employee contributes to mutual respect and cooperative relationships. An excessive desire for a satisfying way of life may dull one's sensitivity to cost and profit issues. An entrepreneur must achieve a profit goal in order to be able to afford a life satisfaction goal.

5. ***How do different personalities affect our effectiveness in running our own small business?***
   Our personalities and desires shape our callings. There is something embedded in each of us that, without robbing us of our freedom, nonetheless prods or tugs us in the optimal direction.

6. ***What do you believe would be the advantage of having an entrepreneurial team when starting a business*?**
   Individual entrepreneurs frequently have weak spots in education or experience. An entrepreneurial team makes it possible to cover such weaknesses by using individuals with varied talents and backgrounds.

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7. ***Explain how customer focus and innovation can be special strengths of small businesses.***
   Small businesses are generally less bound by bureaucracy and corporate policies and usually maintain closer relationships with their customers. In other words, their flexibility affords them the ability to focus on their customers and meet their needs, which naturally generates customer loyalty. At the same time, small firms often grow out of the innovative ideas of their entrepreneurial founders; therefore, this mindset is likely to prevail in the small business.

8. ***Explain the concept of an entrepreneurial legacy.***
   A legacy is what one leaves behind or passes on to one's heirs and to others. An entrepreneurial legacy refers to the entrepreneurial aspect, the business side, of one's legacy, and thus is concerned with what the business experience has meant to all those affected. This includes the tangible elements such as financial resources passed on to heirs and others and also the intangible elements such as the impact of the entrepreneurial experience on family relationships and the example of entrepreneurial integrity or avarice given to the community.

9. ***Explain the following statement: "One can climb the ladder to success only to discover it is leaning against the wrong wall."***
   Entrepreneurial achievements are varied, and the way we measure them also varies. For example, if an entrepreneur concentrates too much on achieving financial goals, that person may fail dismally in other areas of life such as family relationships. The statement points to the need to have one's goals properly defined and to have one's efforts properly forecasted.

SUGGESTED ANSWERS TO YOU MAKE THE CALL EXERCISES

Situation 1

1. ***Should this venture be regarded as entrepreneurial? Is the owner a true entrepreneur?***
   Whether this is entrepreneurial depends on one's definition. The owner may or may not be a founder—the key issue in some definitions of a "true" entrepreneur. In this text, we use a looser definition of entrepreneur, which could include this owner-manager regardless of whether he or she founded the business. The venture is apparently not the high-growth, high-potential type. It may well be what we have called an "attractive small company."

2. ***Do you agree with the philosophy expressed here? Is the owner really doing what is best for his family?***
   This question calls for opinions and permits some discussion of the conflicting values and rewards in business. Some may feel the owner is insufficiently motivated to grow and even to serve his own family properly. Others will determine the family values and careful growth to be appropriate. The question permits the instructor to discern the general orientation of students in a class. How many, after discussion, will give a vote of commendation to this owner? You might ask students to guess the owner's age.

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3. ***What kinds of problems is this owner trying to avoid?***
   The owner is apparently avoiding or reducing problems related to inadequate customer service and product/service quality—areas of difficulty in a rapidly growing business. Also, the personnel and management functions (e.g., delegation, finding qualified key people) are simplified by slow growth. Slow growth may either postpone a transition to professional management or permit a more orderly transition to it.

Situation 2

1. ***What do you like and not like about the Simple Bills concept?***
   This is a win-win situation for everyone. The utility companies win because they get paid in a timely fashion and don't have to incur the cost of collecting past due utility bills. The apartment owners win because the utility bills remain in the tenants' names, and the owners don't incur the risk of incurring past due utility bills. The tenants win because they don't have to take on the task of collecting payment from their roommates. The owners of Simple Bills win because they make money by providing a low-cost, low-overhead service to their customers.

2. ***Would you recommend raising funds from outside investors and growing faster or continuing to bootstrap the operations to conserve ownership? Why?***
   While these entrepreneurs may not want to give away ownership of their business for fear of losing profits, they fail to see the bigger picture. By bringing in investor capital, they will be able to grow the business into something much bigger. By growing the business bigger (from, say, a $1 million company to a $100 million company), their profits will be bigger. If the owners retain 60% control of the business, wouldn't it be better to have 60% of $100 million rather than 100% of $1 million? Indeed, by including investors, the company has the opportunity to grow into something much larger, and more quickly, rather than by bootstrapping this operation**.**

3. ***What strategy would you suggest for growing the business, assuming new investors are brought in?***
   As a high-potential venture, this company may want to seek out angel capital financing. How large Simple Bills wants to grow (statewide versus nationwide) will determine the type of financing these owners will pursue. A nationwide growth plan would require venture capital financing, while a smaller growth plan could utilize angel capital.

4. ***If you choose to raise funds, whom might you seek as investors?***
   Have students think outside the box and consider contemporary fund-raising sources such as Kickstarter.com or other types of online investor resource networks.

Situation 3

1. ***Is work-life balance for everyone?***
   No it is not. Work-life balance is an individual preference and a value. People are spurred into action by what motivates them. Whatever that driving force is will chart the course for how they balance their passion (work, exercise, education) with their other life obligations.

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2. ***Is work-life balance simply a preference, or is it a necessity?***
   Answers will vary as this is based on opinion. Most will argue that it's a preference. Health professionals would largely argue that it should be a necessity. Balance is always the best course of action.

3. ***As an entrepreneur, would there be areas in your life that you would place at a higher priority than growing a business? Explain.***
   Answers will vary as this is based on individual preferences.

SUGGESTED SOLUTION TO CASE 1: DASHLOCKER

1. ***How did Hennessy's background prepare him for starting a business? What entrepreneurial qualities did he embody?***
   Hennessy's background as a research analyst for a hedge fund certainly would not have directly prepared him to operate a dry cleaning company, especially knowing what works and what does not work. However, his research skills probably served him well in researching the opportunity. This experience also would have contributed to his ability to analyze financial statements. He spent a year studying customers' laundry habits by operating a traditional dry cleaning business in East New York.

   In thinking about Hennessy's entrepreneurial qualities, the instructor might have students return to the important qualities listed in Chapter 1 of the text for entrepreneurs to possess, namely:

   - *Commitment and determination*—tenacious, decisive, and persistent in problem solving
   - *Leadership abilities*—self-starters and team builders who focus on honesty in their business relationships
   - *Opportunity obsession*—aware of market and customer needs
   - *Tolerance of risk, ambiguity, and uncertainty*—risk takers, risk minimizers, and uncertainty tolerators
   - *Creativity, self-reliance, and adaptability*—open-minded, flexible, uncomfortable with the status quo, and quick learners
   - *Motivation to excel*—goal-oriented and aware of personal strengths and weaknesses
   - *Courage*—have strong moral convictions and a willingness to experiment

   While the case does not provide much in the way of Hennessy's qualities, it does give you a sense that he was opportunity driven. To be successful, an entrepreneur must clearly identify a problem needing a solution and how he or she can solve the problem at a price enough customers are willing to pay to make the opportunity profitable. Hennessy also demonstrated tenacity in spending a year to convince Laundry Locker, a similar firm in San Francisco, to license its technology to DashLocker. Finally, Hennessy gave up a career that in most cases has large financial rewards, which suggests that he has the capacity to tolerate risk.

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2. ***What were Hennessy's entrepreneurial motivations for founding DashLocker?***
   Chapter 1 lays out four motivations for becoming an entrepreneur: personal fulfillment, personal satisfaction, independence, and financial rewards. DashLocker potentially offered Hennessy the opportunity to satisfy all four motivations if done well. Specifically, Hennessy's primary motivation was to solve an unmet need. He saw the opportunity as a way to change how people live. In his own way, he wanted to make *meaning* for customers. He also wanted to make a difference by reducing the carbon footprint historically caused by laundry businesses.

3. ***What type of entrepreneurial opportunity did Hennessy identify and how did he capitalize on those opportunities?***
   Hennessy wanted to change the way most New York City residents do their laundry and dry cleaning, primarily 20- to 40-year-old professionals who found current laundry services inconvenient to access. In other words, he provided convenience. He also saw growth potential in apartments, where a customer could pick up laundry while still in slippers. This could benefit landlords as well by providing them a way to have a laundry facility for renters at a much lower cost and without the hassles they would encounter from operating a laundry facility. The landlords would also receive a commission, thus providing a win-win situation for everyone. Furthermore, he was capturing the opportunity with only modest resource requirements and, therefore, smaller amounts of capital for him to invest. For instance, DashLocker owned no laundry and dry cleaning equipment. Instead, all items were sent to a wholesale washing center. He also had a low cost of operations, with few employees, and a minimum in operating expenses, such as rent and overhead, which meant a low profit break-even point. But, to make the opportunity attractive in terms of profits, he had to achieve large sales volumes. Growth is not only beneficial, but also essential.

4. ***Describe DashLocker's growth potential.***
   DashLocker had good growth potential. Hennessy had five locations and believed he could grow the business exponentially by adding locations. The opportunity is scalable, which was an essential ingredient for any opportunity to create significant profits. The opportunity to move into apartments and other facilities, along with finding other services such as shoe shining and a drop-off pick-up system for packages, could be met through the same equipment.

5. ***Describe DashLocker's competitive advantage.***
   The firm's competitive advantage would come from two sources: being the first mover in New York City and having the license to use Laundry Locker's proven technology.

6. ***What impact does DashLocker have on society?***
   As already noted, DashLocker had the potential to change how a large part of the professional population in New York City lives.

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7. ***What do you think about DashLocker's social mission? What else could the company do to reduce its footprint? Should businesses be concerned with social entrepreneurship?***

   Hennessy envisioned a social mission for his business by using green, earth-friendly machines in the firm's operations. Nothing is said about whether this decision imposed higher costs on the business. If not, then the choice is easy. Be environmentally friendly. If Hennessy faced higher costs, then he had to find a way to be competitive while incurring additional costs not faced by competitors. Hopefully, Hennessy found a way to capture attractive profits and at the same time accomplish the stated social mission.

   Nothing else in the case suggests other ways to fulfill a social mission. But there are always good options for making a difference in a firm's community. It would require that Hennessy work with his employees to find ways to make the community a better place and touch the lives of others in positive ways. Such a goal is the right thing to do to the extent it is possible for the business. Business owners must have an intentional commitment to such a mission, because there will always be ways for them to rationalize not including a social dimension as part of the firm's mission.

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