

# **S** MALL BUSINESS MANAGEMENT **T** TOOLS FOR SUCCESS

**Second Edition**

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You have deeply ventured;  
But all must do so who would greatly win.

Lord Byron  
*Marino Faliero*, Act 1, Scene 2

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## **ABOUT THE AUTHORS**

**J**o Ann and Jim Carland are uniquely suited to author a text in small business. Their academic, business, research, consulting and teaching backgrounds combine to give them unique insight into the problems and opportunities of small firms. The authors are entrepreneurs themselves. They have started seven businesses! Consequently, they have experienced the challenges of entrepreneurship and learned how the storm is weathered. They speak as doers as well as teachers and their text is founded on pragmatism.

Jim holds a PhD in Management Policy and Systems with related fields in Finance, Accounting and Economics. A Certified Management Accountant, Certified Valuation Analyst, and Certified Public Accountant, he has ten years of business experience and fifteen years of teaching experience.

Jo Ann holds a PhD in Educational Psychology with minors in Social Dynamics, Statistics and Computer Systems. A Certified Data Processing Professional and Certified Computer Professional, she has five years of business experience and twenty years of teaching experience.

Jo Ann and Jim are prolific researchers. They have co-authored more than 150 articles, papers and books and are recognized internationally as experts in entrepreneurship and small business. They have published in such prestigious journals as the *Academy of Management Review*, the *Journal of Business Venturing*, the *International Journal of Management*, the *International Journal of Small Business*, the *Journal of Small Business Management*, *The American Journal of Small Business*, the *Journal of Business and Entrepreneurship*, the *Wisconsin Small Business Forum*, and the *Journal of Business Strategies*. Jim's depth and breadth of knowledge in planning and management tools is complemented by Jo Ann's skills in teaching methodology, social dynamics, personality and computerized systems. They have consulted with more than 300 small firms on a variety of topics ranging from computer systems to management processes. They have seen business from the inside in large firms and in small firms. They have experienced the thrill of success and the heartbreak of plans gone awry in their own firms. Their long time collaborative efforts are culminated in the second edition of this text which reflects an exceptional depth of insight into small business.

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# **S** **SMALL BUSINESS MANAGEMENT** **T** **TOOLS FOR SUCCESS**

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## **PREFACE**

**S**mall business has become a fixture in the curricula of colleges nationwide. The interest which has developed in this topic is gratifying in light of the significance which small business has for national and world economies and the challenging and rewarding careers which it makes possible. We are pleased to offer the second edition of this text as support for a first course in small business management.

The subtitle of this text reveals the primary focus which has been pursued in its development. As active teachers and consultants in small business, as current owners of five small businesses, and former owners of two additional small businesses, we are convinced that a primary factor in the failure of many firms is the absence of management skills and planning. The fundamental objective of this book is the development of those skills.

The text is divided into six parts. Part I is an introduction to the subject of small business management. It describes the importance of the field from an economic and innovative perspective and examines personal considerations of importance to a prospective small business owner. Personality characteristics, life experiences and their role in the establishment and success of small firms is discussed. The sacrifices required for success in a small venture are explored in depth.

Part II of the text contains the tools which are required for the successful creation and management of a small business. Each chapter in this section has been designed to stand alone so that instructors may omit any segments which are deemed to be unnecessary for a given class. In fact, instructors of advanced students may omit this entire part of the text or use sections of it for review without impairing the remainder of the book. The first chapter explains the principles of marketing which are pertinent to small firms and establishes the knowledge which will be required to complete the marketing segments of the business plan and which will be required for ongoing success in operations. The next chapter explains financial and managerial accounting. The focus is on the accounting knowledge which the chief executive of a small firm requires vice the processes which will be employed by an accountant. Despite the fact that many students in small business will have been exposed to accounting principles, experience teaches that few will have a real understanding of the relevant issues which will be required for the successful creation and management of a small firm. The following two chapters explore cost, volume, profit relationships and explains in great detail how

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breakeven analysis and target sales analysis is conducted. Budgeting techniques with special emphasis on cash flow budgets and their role in strategic planning is the subject of the next chapter while financial analysis is presented in the following chapter. The analysis focus is the establishment of analytical tools which are required for effective planning and evaluation in a small business setting.

Part III of the text presents the business plan. A step by step approach to the initiation of a small business is explained from a strategic perspective. From the establishment of goals and objectives through market identification, feasibility assessment, development of financing and the timing of the opening of a firm, the chapters in this section reinforce the value of planning as a key factor in the success of a small business venture. Because of their relative importance for a successful venture, separate chapters on marketing and financial planning are presented.

Part IV of the text is entitled The New Venture. Topics in legal organization and structuring and the pros and cons associated with alternative forms are covered in the first chapter in this unit. Income tax considerations and concerns are explored in depth. Issues in purchasing an ongoing business are discussed in the second chapter with special emphasis on establishing a value for a firm. The final chapter of this unit explores franchising. Pertinent factors from the perspective of both a franchisee and a franchisor are discussed as are the pros and cons of franchising.

Part V of the text is devoted to the management of an ongoing small business. Strategic management and planning techniques are stressed throughout the chapters in this section. The first chapter is an introduction to strategic management which focuses on the functions of top management in a small enterprise. The second chapter examines the management of human resources while the third chapter explains marketing management. The next chapter deals with risk management and insurance issues and discusses the effective control of risk and hazards in operating a small business. The following chapters treat special problems for chief executives of small firms. The effective use, control and management of receivables, inventory and production are explored in detail. The section closes with a chapter on financial planning which focuses on the acquisition and maintenance of adequate physical and financial resources for the operation of a small business.

The final unit in the text, Part VI, is entitled Special Topics. Any chapter in this section may be omitted at the instructor's discretion without sacrificing the integrity of the text. The content includes planning for management succession and bequeathing a small business, the potentially catastrophic effects of divorce on small firms, business law issues, international markets and opportunities for small firms and ethical issues for owners and managers of small ventures.

The text reinforces the concept of a strategic competency for a successful venture. If we examined the strategic competency of the text itself, we would identify the emphasis on tools and planning as the attributes which set this book apart from its competitors. We believe that the key to success is planning, planning and more planning. The tools we present are actually tools of planning. This text has been designed for individuals who will actually put its precepts into practice. The depth of material in the tools chapters will permit anyone to actually apply those tools in the creation and operation of a small business. The detail in the planning chapters will enable an individual to systematically assess the feasibility of a business concept and to prepare a start-up plan. The

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managing chapters make the strategic issues clear and will facilitate the organization and maintenance of an effective management team in a small business.

The text has been written for individuals without experience or knowledge in small business. In addition, those concepts from other disciplines which are mandatory for success in a small business are covered in detail. These concepts include marketing, accounting, finance, economics and management. A cursory reading of the contents might lead one to conclude that redundant material was included in the text. Should that prove to be the case, segments of the text as identified above may be skipped, reviewed or minimized without affecting the remainder of the book. However, we believe that a closer examination of the contents and a reading of the chapters will lead to the conclusion that for the majority of colleges and students the redundancy is minimal. Most students struggle with the concepts and premises of marketing, finance, accounting and economics because of the orientation of those courses in most schools toward large firms. This text focuses on the aspects of those subjects which are pertinent and crucial to success in a small firm. In addition, the exposition of those subjects is precise and complete so that understanding will be facilitated.

The text is liberally supported with illustrations of concepts and approaches. Vignettes, mini cases and anecdotes are used to exemplify, reinforce and illustrate points which should be retained. In addition to supporting the education process, these examples add readability and interest. One of our primary objectives in developing this text has been to produce a book which the students will enjoy reading. To that end, simplicity and clarity of exposition, a practical orientation and a real world focus have been pursued in every chapter and in every exercise and assignment.

We have tested this text extensively in our own classes. The second edition results from four years of teaching with the first edition and incorporates comments which other users of the text have made over the years. We do not shy away from the tough topics. We introduce and explore them from a practical, straightforward perspective. We believe that inclusion of the entirety of the tools for success in small business creation and management will make this book a useful reference tool for your students in the years to come.

We invite you to test the book with your students. Further, we want to hear from you and to receive your comments and feedback. Please feel free to e-mail us at [carland@wcu.edu](mailto:carland@wcu.edu), at any time. We will be pleased to hear from you and to have your help in improving what we have experienced as a labor of love.

Jo Ann and Jim Carland

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