Creating a business

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Noordhoff Uitgevers

Creating a business

To Maarten, a creative entrepreneur

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Preface

The field of entrepreneurship is growing at an incredible rate. People of all ages, backgrounds, and stations of life are launching their own businesses and, in the process, reshaping the global economy. Small companies are discovering the natural competitive advantages resulting from their size – speed, flexibility, sensitivity to customers' needs, creativity, innovative spirit – that enable them to compete successfully with companies many times larger and with budgets to match.

The purpose of this book is to explore the possibilities, the challenges, the risks and rewards of becoming an entrepreneur and to provide the tools needed to be successful. It is not an easy road to travel, but the rewards are well worth the risks.

The software on the site enables students to independently develop a business plan.

Rotterdam, September 2008

Contents

Introduction

Starting a business is COOOL! This book is about the process of getting a new venture started: a firm manufacturing and selling a new fashion line both in the Netherlands and the rest of Europe. Jan Nest, a young Dutch business-school graduate with experience in the textile branch, has decided to use the capital he inherited, €40,000, to set up a business named COOOL. While working as a consultant in the textile industry, he has noticed that his colleagues are relieved when they have a 'casual dress day' and can leave their business suits at home. He feels there are opportunities in the fashion industry and decides to start the production and sales of sweaters for young people to wear on casual days at work and in their free time. Jan plans to establish a limited liability company, the Dutch BV. He will try to get a long-term bank loan to finance part of the equipment he needs for the manufacturing process. He will lease the rest of the equipment. He will rent a building in which to operate his business, locating near Rotterdam in order to have access to various transportation modes for when he starts exporting to other European countries.
In order to develop a helicopter view, the case of Jan Nest will be used throughout the book. The case illustrates that financial management, financial accounting and mangement accounting cannot be judged in isolation and that legal, marketing and fiscal issues influence financial results.

You can't create a business without a strategy!

The business plan for COOOL will articulate the firm's merits, requirements, risks and potential rewards, thus revealing its ability to create and add value to customers and investors.

You can't create a business without taking risks!

The book's target audience is the first- or second-year undergraduate in European business schools. *Creating a business* guides students through the various stages of developing a business plan, emphasising the risks any starting entrepreneur faces. Students will become familiar with concepts such as ethical behaviour, enterprise risk management, business forms, target market, pricing decisions, financial decisions, financial statements, cost concepts, and tax aspects in a European context.

The attached software enables students, whenever they want, to independently realise a business plan applying Visionplanner. Guideline for the software is the case COOOL which is used throughout the book. At the end of each chapter a special section will indicate how Visionplanner can be used in relation to the topics discussed in the relevant chapter. The section also indicates how certain screens of Visionplanner software can be opened via www.creatingabusiness.noordhoff.nl.

Visionplanner provides many possibilities, such as analysing the financial-economic consequences of plans (and investments).

Chapter 1 of *Creating a business* outlines the characteristics of entrepreneurs, the environment in which they work, and the risks and opportunities they face. Chapter 2 discusses managerial aspects. Chapter 3 discusses the choice of a business form and contract law. No sales, no business: Chapter 4 provides basic know-how on marketing products. Chapter 5 analyses investment and financing decisions. Chapter 6 deals with financial statements while Chapter 7 covers managerial accounting aspects. Chapter 8 gives a brief introduction to European taxation.

Students should be able to study the book independently and apply the knowledge acquired in integrated projects. The book matches integrated modules such as Information or Decision Making. In a Finance and Accounting module, students might concentrate on chapters 5, 6, 7 and 8. A Human Resource Management module could be linked to chapter 2, while students following a Law module should study chapter 3. Marketing students should focus on chapter 4. *Creating a business* focuses solely on competencies related to starting a business.

Each chapter also includes a test, problems and internet exercises which give students the opportunity to assess themselves. The test answers and solutions to the problems marked with an asterix are found in the back of the book. Students can acquire additional knowledge and practice by checking out the internet sites mentioned in the book. These internet exercises are meant to develop creative skills and do not lend themselves to standard answers.

Twenty percent of starting businesses fail within the first year. Only 50% survive the first five years. To reduce this failure rate, students should develop the necessary competencies to successfully run a business. Studying *Creating a business* may help them to develop a helicopter view, making them aware of links between the subjects or modules they are studying. By looking at the internet sites they actively use relevant, up-to-date sources of information. Students also learn to take into account all relevant aspects when tackling the problems. Although it is set in a European context, the book is just as well suited for students living outside Europe. The COOOL case study used in examples throughout the book helps students understand relevant theory. The case study at the end of the book gives students the opportunity to assess the competencies they have acquired while studying *Creating a business*.

The software enables students to analyse the consequences of changes in the internal and external environment of a company. Software of Visionplanner, as well as additional cases and exercises, can be opened on the site www.creatingabusiness.noordhoff.nl, using the special log-in code in this book.

1

The entrepreneurial venture

The chapter outlines characteristics of entrepreneurs and the importance of preparing a business plan in section 1.1. The external environment in which the firm operates is discussed in section 1.2. Nowadays corporate responsibility is set high on management agendas. Section 1.3 focuses on ethical concepts. Section 1.4 gives an introduction to enterprise risk management and section 1.5 discusses the influence of culture on a firm's strategy. The last section (1.6) outlines how to use Visionplanner.

1.1 The challenges of an entrepreneur

Entrepreneur

An entrepreneur is a person who creates a new business in the face of risk and uncertainty with the purpose of achieving profit and growth by identifying opportunities and possible competitive advantages in doing something better than the competition. Once an opportunity has been identified, the entrepreneur can start researching the company's feasibility and then plan for its launch.

Opportunity

Owning a business gives entrepreneurs independence and the opportunity to achieve what is important to them. They reap the intrinsic reward of knowing they are the driving force behind their business. Owning a business challenges the owner's skills, abilities and determination. The only barriers to success are those which the owner imposes on him- or herself. Small-business owners are often among the most respected and trusted members of society. Business deals based on mutual trust and respect are the hallmark of many established small companies. The most important benefit of owning a business may be the fact that entrepreneurs have made their hobbies their work and enjoy what they do.

Drawbacks

However, there are drawbacks to owning a business. There is no guarantee that the owner will earn enough to survive. In the early days the owner often has trouble meeting financial obligations, and is always the last to be paid. The failure rate of starting a business is high – as mentioned in the Introduction, 20% of start-ups fail in their first year – so entrepreneurs should consider the risk-reward trade-off before putting their personal assets and mental wellbeing on the line. Most starting business owners work more than 60 hours per week without paid holidays, and this can result in high levels of stress.

In order to understand the risks an organisation faces, it is important to understand its network of interrelated individuals, entities and external forces, and the way the organisation creates value within this network. Successful entrepreneurs understand they aren't simply creating a job for themselves and a few employees, they are building a business that can create value for themselves and their community.

Nowadays businesses are confronted with issues as globalisation, shorter product life cycles, shorter business cycles, cultural differences, real-time data processing and distance control. Power of customers and suppliers, new technology, new entrants on the market, competitors, regulation have all contributed to enhance strategic thinking. Strategy is more important than ever!

Strategic planning

A crucial ingredient in business success is strategic planning, often ignored by starting companies. The planning process forces potential entrepreneurs to subject their ideas to an objective evaluation of the competitive market. The goal of developing a strategic plan is to create competitive advantage – the aggregation of factors that sets the business apart from its competitors and gives it a unique position in the market. There are several steps in the strategic planning process. These include:

- develop a clear vision and translate it into a meaningful mission statement
- define the firm's core competencies, such as quality, service, innovation, team-building, flexibility, and its target market segments to position the business to compete effectively
- assess the company's strengths and weaknesses (positive and negative internal factors)
- identify the company's opportunities and threats (positive and negative external forces)
- identify key success factors
- analyse the competition
- create company goals and objectives
- formulate strategic options
- translate strategic plans into action plans
- establish accurate controls, e.g. a balanced scorecard which provides managers with a comprehensive picture of the company's total performance.

Balanced scorecard

A balanced scorecard is like the dials in an airplane cockpit: it gives the manager complex information at a glance. For the complex task of navigating and flying a plane, pilots need detailed information about many aspects of the flight such as speed, fuel, altitude, destination and weather reports. Reliance on purely one instrument can be fatal. Similarly, the complexity of managing an organisation requires that managers can look at the business from various angles. The balanced scorecard translates the company's mission and strategy into goals and measures, organised in four different perspectives: financial, customer, internal business process, and learning and growth. To build a balanced scorecard, the manager has to develop goals and measures for these four critical performance variables:

1 financial, such as operating profit, market share price, return on equity (see section 6.7)
2 customer, such as customer satisfaction, customer retention, customer loyalty
3 internal business process, such as quality measures, cycle time measures
4 learning and growth, such as employee satisfaction, sickness rate, employee training.

By combining these four perspectives, the balanced scorecard helps managers understand many interrelationships, as you can see in the following example.

■ Example 1.1 Strategic planning for COOOL

The strategic planning for COOOL includes the following characteristics:

- COOOL's owner, Jan Nest, has created a mission statement: 'Our mission is to make young, ambitious people feel happy in casual clothes'
- The core competencies include social responsibility, high quality, technical experience, and an entrepreneurial mind (see section 2.1)
- The target market is young graduates in the European business community (see section 4.1)
- COOOL's strengths include technical expertise, the owner's educational background and work experience, a risk-seeking mind, and a location near

the gateway of Europe. Lack of experience in managing personnel may be perceived as a weakness
- The increasing number of business school graduates and the customary 'casual Friday' in many organisations form an opportunity for COOOL. However, high competition and increasing regulation by governmental authorities may pose a threat to COOOL
- The key success factors for running the business are Jan Nest's educational background, his experience in the textile industry resulting in the necessary technical knowledge, his ability to negotiate with banks, his enthusiasm, and his ambition.

COOOL's balanced scorecard is designed as follows.

Perspective	Goal	Measure
Financial	Survive Succeed Prosper	Cash flow Monthly sales growth Increase market share and return on equity
Customer	New products Customer satisfaction	Percent of sales from new products Customer retention rate
Internal business processes	Manufacturing Excellence Design productivity	Cycle time Unit cost Efficiency
Learning & growth	Time to market Employee satisfaction	New product introduction versus competition Employee retention rate, sick rate

The following figure shows the construction of a business plan using Visionplanner (figure 1.1).

Figure 1.1 **Business plan Visionplanner**

1.2 The economy and important trends

Globalisation

Today, the global marketplace is as much the territory of small starting companies as it is of giant multinational corporations. Commercial trade has become the force that drives global interaction. Political, social, cultural, and economic changes are sweeping the world, creating a host of opportunities for small companies ready to capitalise on them. Businesses can no longer consider themselves to be domestic companies in this competitive global environment. Going global is a matter of survival, not preference. Going global can put tremendous strain on a small company, but it can also have several benefits, such as offsetting sales decline in the domestic market, increased sales and profits, extended product life-cycles, lower manufacturing costs, higher quality levels, better customer orientation, and improved competitive position.

Going global presents the manager with new and often perplexing problems. The manager must be adept at dealing with a wide range of economic, legal, political, socio-cultural and technological factors, since the manager's plans, organisation, incentives and controls will be moulded by them. The simplest and cheapest way for a firm to begin conducting business globally is to establish a site on the internet. With a well-designed website, the company can reach its customers anywhere in the world 24 hours of the day. Another relatively easy way to break into international markets is by using a trade intermediary, a domestic agent that serves as distributor in foreign countries.

Export

Small firms may begin exporting through the receipt of unsolicited orders from abroad, rather than as a result of any formal export strategy. It makes sense for companies to invest in export when it maximises long-term revenues or competitiveness. Export activities enhance a company's status as a learning organisation. The contact with international customers and foreign marketing and distribution techniques can teach the entrepreneur lessons which may ensure the firm is no longer dependant on sales from one single market. Since governments consider strong exports to be essential for a healthy economy, most countries provide a variety of public support services for exporting firms, such as subsidised export credit insurance and low-cost loans. Letters of credit substantially reduce risks for exporters and importers. The letter of credit is the classic form of international export payment, especially in trade between distant partners. Details of the letter of credit are outlined in chapter 3.

However, there are a number of barriers blocking free trade among nations, such as tariff barriers (tax or duty imposed by government on imported goods), quotas (a limit on imported products), embargoes (a total ban on import of certain products) and dumping (selling large quantities in foreign countries below cost). Trade barriers can dramatically distort the prices companies charge for their products. Within the European Union there are no trade barriers among member states, and a common external trade policy is in force. In addition, factors of production, such as labour, capital, and technology, move freely between the member countries.

Managers doing business abroad need to be familiar with the economic systems of the countries in question, the level of each country's economic development, exchange rates, and economic integration. The manager must also consider the legal and political environments of the countries in which they do business, such as the trade barriers mentioned above.

Economic trends influence consumer and business buying. When personal income levels rise, consumers have more buying power. Debt levels and availability of credit also influence consumer spending (see sections 5.2 and 5.3).

The following example shows how Jan Nest sees 'globalisation'.

■ **Example 1.2 Going global with COOOL**
As outlined in section 1.1 COOOL intends to manufacture high-quality products for the West-European market. Jan Nest is a hip young entrepreneur who intends to establish the COOOLest site on the net, targeting young and ambitious European businessmen and women. He identified his export opportunities after travelling around in Europe.

1.3 Ethical concepts

Creating value is usually the entrepreneur's primary reason for going into business.It is an essential requirement for staying in business. However, society is increasingly imposing on firms the additional requirement of considering ethical and social standards as well as the economic impact of their decisions. Ethics refers to the principles of conduct governing an individual or a group, and specifically to the standards you use to decide what your conduct should be. Ethical decisions involve normative judgements – something is good or bad, right or wrong, better or worse – and morality, society's accepted ways of behaviour. Several factors influence whether specific people in specific situations make ethical or unethical decisions: law, individual standards, practice in the organisation, and the influence of management. Something may be legal, but not right, e.g. charging a naive customer an exorbitant price. People also bring to their jobs their own ideas of what is morally right or wrong. Unethical business practice involves the cooperation of others and reflects the values, beliefs, attitudes and behavioural patterns that design an organisation's operating culture. The behaviour of superiors is an important factor influencing ethical decisions Many managers seem to feel that unethical actions are acceptable if their superior knows about them.

Ethics

Linked to ethics is the idea of corporate social responsibility. This is becoming a major issue for companies in the current political and social climate. Environmentally responsible business owners focus on the three Rs: reduce, re-use, and recycle. Companies should behave in a socially responsible way, satisfying the interests of all of their stakeholders (shareholders, employees, creditors, suppliers, customers, tax payers, etc.). Managers must attend to their basic moral duties as human beings. However, company law makes this approach impractical, as mangers have a legal and fiduciary obligation to maximise shareholder value.

COOOL's code of conduct is shown in the following example.

■ **Example 1.3 COOOL conduct**

Owner Jan Nest has defined the following code of conduct for all his employees:

- avoid conflicts of interests
- refrain from any activity that would prevent you working ethically
- refuse any gift or favour that would influence your actions.

COOOL provides employment to fellow countrymen and will not use Asian child labour to produce its sweaters.

1.4 Basics of enterprise risk management

Risk

Every business exists in a complex network of relationships that affect the markets in which it operates, the alternative actions available to it, the risks it faces and the likelihood of achieving its objectives. The term risk is generally used to describe any situation where there is uncertainty about what the outcome will be. Risks are not only threats and possible disadvantages, but also the chance of advantages and profit, e.g. in the case of interest risk and currency risk (see section 5.7)

Every business decision involves an element of risk. There are risks involved in making investments, extending credits to customers, developing and pricing new products, hiring new employees, and balancing the trade-off between risk and return. When risk is increased, investors require a higher return on their investment.

All businesses face the risk of loss. Fires, lawsuits, accidents, natural disasters, theft, illness, disability, and death are common occurrences that can devastate any unprotected business. Risk is a daily fact of life. Most businesses accept the possibility of losing money in order to make money. In fact, risk prompts people to go into business in the first place.

Enterprise risk management

Enterprise risk management is the identification and assessment of the collective risks that affect a company's value, and the implementation of a company-wide strategy to manage them. It provides a framework for management to deal effectively with uncertainty and associated risk and opportunity and thereby enhance its capacity to create value.

When business owners develop frameworks to assess and measure their exposure to significant risks, they have to define the value-drivers of positive shifts, such as successful execution of the core business processes, and the value-drivers of negative shifts, such as customer mismanagement. Positive shifts should be encouraged by e.g. research and innovation. Negative shifts should be prevented or mitigated by e.g. by market research.

Risk management entails managing the company's total risk, because it is the company's total exposure that determines whether the company can avoid financial distress. By aggregating risks, some individual risks within the company will partially or completely offset each other. That is why a business should address not only its underlying risks, but also the interrelationship between them.

Risk management is an ongoing activity. Managers must periodically evaluate the company's exposure to loss by asking the following questions:
- what does the company have
- what can go wrong
- what is the minimum we need to stay in business
- what is the best way to protect the company's assets.

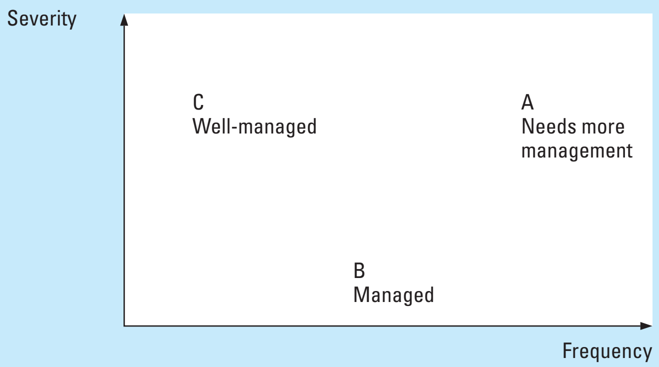
By answering these questions, managers can adjust the company's risk management programme to address changing needs and circumstances.

One of the first steps in risk management is identifying risks coming from industry or macro-environmental forces such as suppliers, customers, competitors, substitutes and new entrants. Probably the most immediate risk to a business is the threat that competitors will erode or steal a company's market share by offering superior products, better service or better prices. Another risk is the possibility that new competitors will enter the market. Determinants of the risk from substitutes include the performance quality of substitutes, the cost of potential substitutes, and buyer loyalty to the original product. The risk related to suppliers often takes the form of increased costs of raw materials or restricted access to raw materials. Customers are usually considered a positive element in doing business, but their degree of bargaining power may constitute a risk. Customer tastes change rapidly.

Risk identification methodology

A risk identification methodology is the use of risk mapping. A risk map ranks exposure to risk by frequency on the horizontal axis and by severity on the vertical axis (see figure 1.2).

Figure 1.2 **Risk map**



The process of developing and implementing a risk map is as follows:
- establish a top-down framework to classify all types of risk
- create a bottom-up list of specific risks based on loss history and self-assessment
- evaluate the probability and severity of each risk and develop the risk map
- identify controls
- assign responsibilities for implementing controls and for monitoring and reporting risks
- aggregate individual risk maps into an enterprise-level risk map and determine whether new controls are needed at the enterprise level.

A standard for risk quantification is Value-at-Risk (VaR). VaR is a statistical approach that quantifies the potential decline in value. VaR measures how much value can be lost in one day. When the stock market declines by 22% (as happened in October 1987), and an investor has €1 million in shares, then the daily amount at risk is €220,000 if such a decline happens again. VaR techniques can be applied to measure and manage cash flow-at-risk and earnings-at-risk. It goes beyond the scope of this book to discuss the details of VaR since most starting entrepreneurs use qualitative techniques with categories such as high, moderate or low, to assess their risks.

Managers should ask themselves how much capital should be set aside to cover unexpected losses. Companies hold capital for two primary reasons. The first is to meet cash requirements, such as the cost of investments and expenses. The second is to cover unexpected losses arising from risk exposure. The level of capital that management wants to set aside for risk is often called economic capital. The overall level of economic capital required by a company depends on the firm's financial strength (see chapter 5).

Another important issue is the correlation of risks. If two risks behave similarly or by the same amount, they are considered highly correlated. The greater the correlation, the higher the risk. Correlation is a key concept in risk diversification. Highly correlated risk exposures increase the level of risk concentrations within a business.

One of the first steps in managing risk is to identify where it exists. Those areas of risk in which a potential for loss exists may fall under four headings:
1 loss of property
2 loss of income
3 legal liability to others
4 loss of the service of key personnel.

Once you have identified the potential for risk, you have three choices: you can accept risk, eliminate or control it, or shift the responsibility for it.

Risk exposures

Risk exposures of high severity but low probability, such as earthquake or fire, are excellent candidates for insurance. Risk of low severity but high probability, such as minor theft, is generally self-insured by the company. Whereas some companies choose to accept fully the financial consequences of a loss themselves, others choose to control risk by using a number of techniques to minimise the organisation's losses. These include:

- *risk avoidance*: a manager might try to eliminate the chance of a particular type of loss, e.g. avoid the possibility of being sued after accidents by not producing skateboards, but that would mean that the company is out of business
- *loss prevention*: a manager might try to reduce the chance of a given loss by removing hazards or taking preventive measures, e.g. placing warnings on the skateboards
- *loss reduction*: a manager may try to reduce the severity of the losses that do occur, e.g. installing overhead sprinklers to reduce damage during a fire
- *risk-control transfer*: a manager may try to eliminate risk by transferring the actual property or activity responsible for the risk or the responsibility for the risk, e.g. a firm can sell fixed assets to eliminate the risk of ownership.

Business failure

As we know, starters face a high risk of business failure. Experts have identified the ten most likely reasons for new business failure:

1. managerial incompetence
2. lack of industry experience
3. inadequate financing
4. poor business planning
5. unclear or unrealistic goals
6. failure to attract and keep target customers
7. uncontrolled growth
8. inappropriate location
9. poor inventory and financial controls
10. inability to make the transition to an entrepreneurial mindset.

The risks of failure can be reduced by knowing how to find the money you need, how to register and insure your business, how to reach your customers and where to go for help, if needed.
Other important knowledge that prevents significant losses for the business includes knowing your own business in the sense that all employees should understand how their responsibilities may affect the risks to the business, establishing a system of checks and balances that prevent any individual from gaining the power to take excessive risks on behalf of the company, setting limits that tell when to stop, keeping an eye on the cash, and paying for the performance the owner expects from employees.

Managers must assess their exposure to various risks by analysing pressure points within the business that can cause risk to flare into a crisis. A rapid increase in the firm's operations can bring an undesirable level of risk. People may have to work beyond their normal capacity, new facilities may have to be integrated in the overall operations, and mistakes and breakdowns may occur. New customers may increase credit risk (see section 5.8).

The following example illustrates the potential pressure points faced by COOOL.

■ **Example 1.4 COOOL pressure**

A rapidly expanding scale of operations is a sign of successful growth. However, COOOL's resources may become strained to the limit as people and employees work beyond their normal capacity. Infrastrucures designed for a small business operation quickly become inadequate, and mistakes and breakdowns may occur. Product and service quality may suffer when the number of customer accounts increases. New hired employees may lack adequare training and experience. Individual employees may sometimes create risk by engaging in wrongful acts – either misinterpretation or fraud.

1.5 Culture

Attitude to work, authority, equality and other important factors differ from one country to another. Firms that operate internationally need to understand and cope with different cultures that can manifest themselves in terms of different standards, values and expectations in the various countries in which they operate. For example, budgets in Asia should be set at relatively low levels since Asian employees don't want to disappoint their superiors, in contrast to the USA where employees need to be challenged by setting budget targets which are not easily to be reached.

Culture is an unintended driver of strategy. Faced with a stimulus for action, such as declining performance, managers first try to improve the implementation of the existing strategy by trying to lower cost, improve efficiency, tighten controls or improve accepted ways of doing things. If this is not effective, a change of strategy may occur in line with the existing culture. For example, managers may seek to extend the market for their business, but assume that it will be similar to their existing market, and therefore may manage the new venture in much the same way as they have been used to. However, culture differs per country and a highly bureaucratic organisation cannot easily be changed in a customer-oriented firm.

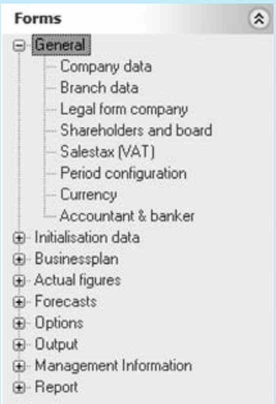
1.6 Visionplanner

Visionplanner focuses on an existing company and starts with 'general'. Qualitative information can be included, such as competencies and strengths and weaknesses of the entrepreneur. Figure 1.3 shows the basic screen of Visionplanner.

Figure 1.4 shows how the various topics in this chapter can be implemented in Visionplanner.

Figure 1.3 **General (Visionplanner)**

Figure 1.4 **Various parts Visionplanner**



Summary

The chapter discusses the numerous aspects an entrepreneur is confronted with when starting a new business. The various steps in strategic planning are described, as well as the external environment in which the firm operates. An entrepreneur's social responsibility goes beyond making profits to include protecting and improving the welfare of society. The entrepreneur should define rules and principles that define right and wrong conduct. Many entrepreneurs do not oversee the risks they face when creating a business. The chapter finishes with the basics of enterprise risk management.

Websites

www.entre-preneur.org	Website of Entrepreneur.Com.Inc. for guidelines to starting a business, including information on basic steps, business opportunities, business plans, getting started, raising money, taxes, advertising, human resources, success secrets, etc.
www.startup-journal.com	One of the *Wall Street Journal* websites, includes start-up journal reports for small businesses, discussions with other start-up journal readers, business plan tools, business opportunities.
www.venture-one.com	Website of Venture One, a Dow Jones company on venture capital activities, includes a comprehensive database on venture-backed companies and investors.
www.bplans.com	Website of The Business Planning Experts, gives expert advice on how to take a business idea and turn it into a professional plan; includes sample business plans, industry reports, and a cash compass.
www.business-plans.org	Website of the Center of Business Planning, for guidance in writing a business plan, analysing a marketing strategy, developing a pricing and sales plan; includes a knowledge base of proven business principles.
www.sba.gov/starting/indexbusplans.html	Website of the United States Small Business Administration, indicates business plan basics, including financing, marketing, human resources, taxes, and critical legal aspects when starting a business.
www.entreworld.com	Website of the Kauffman Foundation, focuses on the idea of starting a business with supporting academic material.

Test questions

Q1.1 What steps can companies take to avoid business blunders abroad?

Q1.2 Why is it often easier to start a service business than a goods-producing business?

Q1.3 List four questions you may ask yourself when trying to make an ethical decision.

Q1.4 Highlight the opportunities and challenges of conducting business in other countries.

Q1.5 What are the key characteristics common to most entrepreneurs?

Problems

P1.1 Why must entrepreneurs learn to think globally?

***P1.2** What forces are driving small businesses into international markets?

P1.3 What advantages does going global offer a small business owner?

P1.4 What is competitive advantage and why is it important?

***P1.5** What is a balanced scorecard?

P1.6 How do companies support ethical behaviour?

Internet exercises

E1.1 Gaining competitive advantage in today's marketplace is critical to a company's success. Look in recent issues of *The Wall Street Journal* and find a company whose practices have set that company apart from its competitors. Use the online edition at www.wsj.com and enter such key terms as customer service, innovation, competitive advantage, or discount. Answer the following:

- **a** what products or services does the company manufacture or sell?
- **b** how does the company set its goods or services apart from its competitors: do they compete on price, quality, service or innovation?
- **c** what kind of information does the company include on its website (go to www.corporateinformation.com to find corporate information from around the world)?

E1.2 Go to www.bplans.com and create a business plan after studying the examples on the website. Pay special attention to risk analysis.

E1.3 Go to sbn.envirolink.org/ and locate 'green' business opportunities.

E1.4 Choose a local business and describe how it could be more socially responsible.

E1.5 Go to www.wto.org and analyse the rules that may be applicable for COOOL.

E1.6 Go to www.isquare.com and list tips which may be appropriate for COOOL.