

Exploring Business v3.0 by Karen Collins
Test Item Files Co-Written by Karen Collins and David Murphy

Chapter 2: Entrepreneurship

Section 2.2: What is an Entrepreneur

True/False

1. As someone who has identified a business opportunity and assumed the risk of creating and running a business to take advantage of it, Rick Jurmain is an entrepreneur.

(True; Easy)

2. Entrepreneurs usually start with few resources but build their businesses with the collective help of family members and investors.

(False; Easy)

3. Entrepreneurs typically copy what is being done by others rather than take changing situations into account.

(False; Easy)

4. At the end of the day, entrepreneurs' successes will depend on their ability to manage and grow the organizations that they created to implement their visions.

(True; Easy)

Multiple Choice

5. A(n) _____ is someone who identifies a business opportunity and assumes the risk of creating and running a business to take advantage of it.

- a. executive
- b. marketer
- c. entrepreneur
- d. small business owner

(c; Easy)

6. While many _____ ventures are based on innovative ideas, others revolve around improvements to existing goods or services.

- a. franchise
- b. not-for-profit
- c. governmental
- d. entrepreneurial

(d; Moderate)

7. According to the Small Business Administration, one of the most common reasons for starting a business is to _____.

- a. be your own boss

- b. develop managerial skills
- c. achieve financial security
- d. manage team-oriented projects

(a; Moderate)

8. Entrepreneurs usually start _____, beginning with _____ resources.

- a. at the bottom / limited
- b. small / limited
- c. independently / specialized
- d. small / patented

(b; Moderate)

9. Which of the following best describes entrepreneurs?

- a. They're usually onetime managers who open up a business for the sole purpose of providing an income for themselves and their family
- b. They're retired businesspeople working on a voluntary basis.
- c. They're risk takers who can adjust to changing situations.
- d. None of the above

(c; Moderate)

10. Clarke Santiago and his wife Teresa, parents of two children, opened a buffet restaurant last year. They've been so successful with their family-style atmosphere that some investor friends have offered funding to expand into two additional locations. The investors also want to consider opening several more restaurants each year. After thinking it over, the Santiagos decided to stick with one restaurant and add catering services—a move that should provide them with a satisfactory income. The Santiagos' business is a good example of a _____.

- a. lifestyle business
- b. start-up business
- c. sole proprietorship
- d. franchise

(a; Hard)

11. Which of the following is **not** a characteristic of an entrepreneur?

- a. Is confident in their innovation or business idea
- b. Is willing to work under a certain degree of uncertainty
- c. Avoids risk
- d. Has the flexibility to adjust to changing situations

(c; Moderate)

12. Marcia Kilgore's first business was called "Bliss Spa." After selling this business for \$30 million, she launched two more companies, Soap and Glory and FitFlops. Her newest company is Beauty Pie. Marcia Kilgore is:

- a. someone who has had several unsuccessful companies
- b. a woman who is unable to start businesses that appeal to men
- c. a serial entrepreneur

d. an individual who has started several lifestyle businesses
(c; Hard)

13. Which of the following is not a reason that prevents some people from starting a business?

- a. Don't want to sacrifice a steady income
- b. Don't have the money to start a business
- c. Lack of a good business idea
- d. To enjoy creative freedom

(d; Easy)

Short Discussion

14. Explain why some individuals become entrepreneurs.

The main reasons include the desire to be one's own boss, to achieve financial independence, to enjoy creative freedom, and to use one's skills and knowledge. Entrepreneurs are usually passionate about what they're doing.

(Easy)

Section 2.3: The Importance of Small Business to the U.S. Economy

True/False

15. It is unlikely that you'd decide to set up a new company to make cars.

(True; Easy)

16. The purpose of starting a business is to satisfy customers.

(True; Easy)

17. There are more than 40 million small businesses in the United States.

(False; Moderate)

18. Innovators at large businesses are the primary driving force behind the discovery of new ways of doing old things.

(False; Moderate)

19. The success of small businesses in fostering creativity has caused many large companies to respond by downsizing in order to act more like small companies.

(True; Moderate)

20. Over the last two decades, women have become the majority of small business owners.

(False; Moderate)

21. The success of small businesses in fostering creativity has gone unnoticed by big businesses.

(False; Moderate)

22. More than three-fourths of all U.S. adults are either self-employed or work for small businesses.

(False; Hard)

23. Small businesses in the U.S. generate close to 50% of our gross domestic product (GDP).

(True; Moderate)

Multiple Choice

24. The majority of small businesses are owned by ____.

- a. white females
- b. black males
- c. white males
- d. black females

(c; Easy)

25. The Small Business Administration defines a small business as one that is ____.

- a. either a for-profit or not-for-profit organization
- b. not dominant in its field
- c. has no more than 100 employees
- d. owned and operated by a multinational company

(b; Moderate)

26. Although the split between those working in small companies and those working in big companies is about even, large companies:

- a. hire less frequently and fire less frequently than small companies.
- b. develop more patents per employee than small companies.
- c. offer employees a more innovative-friendly environment than small companies.
- d. are more likely than small firms to offer U.S. workers their first job when they enter the business world.

(a; Moderate)

27. The majority of Americans entered the business world by working for ____, which are constantly creating jobs and providing opportunities for a vast number of workers.

- a. franchises
- b. small businesses
- c. entrepreneurs
- d. sole proprietorships

(b; Moderate)

28. Owners of small businesses are responsible for much of the ____ of U.S. business.

- a. short-term debt
- b. healthcare shortfall

- c. wage escalation
 - d. product innovation
- (d; Moderate)**

29. _____ tend to offer environments that appeal to individuals with the talent to invent new products or improve the way things are being done.

- a. Small businesses
- b. Free markets
- c. Family-owned businesses
- d. Sole proprietorships

(a; Moderate)

30. The past two decades have seen a _____ in the number of businesses owned by women and minorities.

- a. substantial increase
- b. substantial decrease
- c. moderate decrease
- d. moderate increase

(a; Moderate)

31. Many small firms provide _____ services to large firms—that is, they hire themselves out to help with special projects or to handle certain business functions.

- a. franchising
- b. entrepreneurial
- c. supplemental
- d. outsourcing

(d; Moderate)

32. _____ companies provide valuable services to _____ companies by acting as sales agents for their products.

- a. Large / small
- b. Small / large
- c. Wholesale / retail
- d. Entrepreneurial / corporate

(b; Moderate)

33. Small business output in the United States generates about _____ of our gross domestic product.

- a. 10 percent
- b. 90 percent
- c. 50 percent
- d. 75 percent

(c; Hard)

34. A company is considered large if it _____.

- a. dominant in its field

- b. is independently owned and operated
- c. demonstrates sustained growth
- d. has been in existence for more than ten years

(a; Hard)

35. Small businesses do all of the following except _____

- a. Create jobs
- b. Spark innovation
- c. Provide opportunities for many people, including women and minorities
- d. Develop very few patents

(d; Moderate)

Scenario-Based

Mary Gonzalez recently expanded her chain of flower shops. As the only small flower shop located in major airports in the Midwest, she has a unique operation. She has 72 employees in 30 shops, and although her company isn't dominant in its industry, her shops are busy year round. To accommodate her unique clientele, Mary developed the idea of packaging flowers in small waterproof pots that won't leak either in the airport or aboard planes.

36. Gonzalez's company should be considered a small business.

(True; Easy)

37. Small businesses like Gonzalez's account for about 50 percent of the U.S. gross domestic product each year.

(True; Easy)

38. Gonzalez's business is not a small business because it's unique in the flower-shop industry.

(False; Moderate)

39. Because Gonzalez's company is independently operated, the Small Business Administration would consider it a large business.

(False; Moderate)

40. Gonzalez's shop managers regularly think of new ways to market their products, improve their quality, keep them fresher, and meet consumer needs. In this respect, Gonzalez's business is unusual among small businesses.

(False; Moderate)

Essay Discussion

41. In what ways do small businesses help the U.S. economy?

Small businesses create jobs, spark innovation, and provide opportunities for many people, including women and minorities, to achieve financial success and independence.

In addition, they may complement the economic activity of large organizations by providing them with components and services and handling the distribution of their products.

(Moderate)

Section 2.4: What Industries are Small Businesses in?

True/False

42. Because Green Thumb Landscapers buys goods from other firms and sells them to consumers, the company is a retailer.

(True; Easy)

43. Among small businesses, the service-producing sector is larger than the goods-producing sector.

(True; Moderate)

44. The service-producing sector includes manufacturing, construction, and agriculture.

(False; Moderate)

45. Unfortunately for small business, the service-producing sector has been steadily decreasing in revenues over the past 10 years.

(False; Moderate)

46. A small business that buys flowers from a local grower and sells them to a grocery store is an example of a wholesaler.

(True; Moderate)

47. The largest areas of the goods-producing sector are construction and manufacturing.

(True; Hard)

Multiple Choice

48. To understand where _____ businesses are concentrated, you need to divide them into the goods-producing sector and the service-producing sector.

- a. struggling
- b. small
- c. profitable
- d. innovative

(b; Easy)

49. If you want to start a new business, which of the following enterprises would be the best choice?

- a. Automobile manufacturer
- b. Aluminum processor
- c. Steel refinery

d. Car dealership

(d; Easy)

50. Manufacturing is primarily the domain of _____ businesses.

- a. professional
- b. midsize
- c. large
- d. multinational

(c; Easy)

51. A local bakery is acting as a _____ when it sells desserts to a restaurant.

- a. wholesaler
- b. retailer
- c. franchiser
- d. franchisee

(a; Easy)

52. In which industries would you find a heavy concentration of small businesses?

- a. Veterinary services
- b. Florist
- c. Aluminum manufacturing
- d. Both (a) and (b)

(d; Moderate)

53. The goods-producing sector is home to only 20 percent of all small businesses, the majority of which are in _____.

- a. construction and manufacturing
- b. food service
- c. direct marketing
- d. retailing

(a; Moderate)

54. A small business that buys goods from other firms and sells them to consumers is known as a _____.

- a. wholesaler
- b. retailer
- c. distributor
- d. franchiser

(b; Moderate)

55. About 80 percent of small businesses in the U.S. are concentrated in the _____ sector.

- a. goods-producing
- b. retail
- c. service-producing
- d. professional

(c; Hard)

Medium-Length Discussion

56. In what industries are small businesses concentrated?

Small businesses are concentrated in two sectors. The goods-producing sector includes companies that involve manufacturing, construction, and agriculture. The service-producing sector involves wholesale trade, transportation, communications, finance, insurance, real estate, and such professional services as health care, advertising, accounting, and personal services.

(Moderate)

Section 2.5: Advantages and Disadvantages of Business Ownership

True/False

57. A rewarding aspect of being a business owner is that you can't get fired—an advantage that comes under the heading of "Creative Freedom and Personal Satisfaction."

(False; Easy)

58. A survey conducted by the *Wall Street Journal* indicates that, by and large, small business owners have had more satisfying business experiences than they would have had as top-level executives.

(True; Easy)

59. One advantage of working for someone else is the likelihood of making more money than if you were running your own business.

(False; Moderate)

60. Because an owner can delegate both authority and responsibility, entrepreneurs often have more free time than people who work for someone else.

(False; Hard)

Multiple Choice

61. As a business owner, you're responsible for making the decisions that pertain to the profitability of your business. This decision-making freedom best reflects the _____ advantage of small business ownership.

- a. independence
- b. first-mover
- c. lifestyle
- d. financial

(a; Moderate)

62. As a business owner, you're in charge and can decide when and where you want to work. This managerial freedom best reflects the _____ advantage of small business ownership.

- a. financial
- b. intellectual
- c. time-management
- d. lifestyle

(d; Moderate)

63. Which of the following is among the rewards of being a small business owner?

- a. Freedom from fiscal responsibility
- b. Free time
- c. Freedom from job-related stress
- d. Lifestyle freedom

(d; Moderate)

64. Which of the following is among the disadvantages of small business ownership?

- a. Lifestyle uncertainty
- b. Steep learning curve
- c. Heavy time commitment
- d. Family values

(c; Moderate)

65. A survey conducted by the *Wall Street Journal* indicates that _____ have a more satisfying business experience.

- a. top-level executives
- b. small business owners
- c. franchise owners
- d. team members

(b; Moderate)

66. Which of the following is an advantage to starting a business?

- a. Financial security
- b. Avoidance of unpleasant work tasks
- c. Opportunity to gain an understanding of all aspects of a business
- d. Lower stress level

(c; Moderate)

Short Discussion

67. Summarize the advantages and disadvantages of business ownership.

Advantages include independence, financial rewards, lifestyle, learning opportunities, creative freedom, and personal satisfaction. Disadvantages include financial risk, stress, time commitment, and undesirable duties.

(Easy)

Section 2.6: Starting a Business

True/False

68. The first step before actually starting a business is to get financing.

(False; Easy)

69. Franchises are considered an easy, cost-efficient way to start your own business.

(False; Easy)

70. Buying a franchise is the most common, though riskiest, option for starting a new business.

(False; Moderate)

71. If he bought a local combination miniature golf course and driving range, Bernard Blanco would find that buying an existing business is an easier option than starting from scratch.

(True; Moderate)

72. When buying a franchise, the business owner must pay a monthly royalty fee but typically reserves the right to buy core products from other suppliers.

(False; Moderate)

73. Franchises generally don't include such complex products as hotels.

(False; Hard)

74. Starbucks' Howard Schultz is an example of a person who came up with a business idea as a result of a hobby.

(False; Hard)

Multiple Choice

75. Which of the following is not an advantage of buying an existing business?

- a. You have a proven product
- b. You have access to current cash flow.
- c. You have a list of suppliers that you can use
- d. You will inherit trained employees.

(b; Easy)

76. If you purchase a business, it is lawful for the previous owner to set up a competing business that draws its former and your current customers away from you ____.

- a. only by paying a stipulated fee
- b. any time he or she wants
- c. only after a stipulated time
- d. only in a mutually agreed-upon location

(b; Easy)

77. Franchises are often quite _____.

- a. legally simple
- b. easily acquired
- c. attractive from a tax standpoint
- d. expensive

(d; Easy)

78. Which of the following is the most common but riskiest option in becoming a small business owner?

- a. Marketing an unknown product
- b. Starting from scratch
- c. Obtaining a franchise
- d. Buying an existing business

(b; Moderate)

79. Which of the following is an advantage of buying an existing business?

- a. You can identify competitors.
- b. You have access to current cash flow.
- c. You can identify suppliers.
- d. You will inherit employees.

(c; Easy)

80. Which of the following is the most common but riskiest option in becoming a small business owner?

- a. Marketing an unknown product
- b. Starting from scratch
- c. Obtaining a franchise
- d. Buying an existing business

(b; Moderate)

81. Howard Schultz, a New York executive for a housewares company, came up with his great business idea when he:

- a. Was encouraged by his boss to start a business
- b. Decided he needed to run a coffee shop to provide stability for his family
- c. Visited the coffee shop of one of his smaller customers and discovered why it ordered so many coffeemaker filters
- d. Found that his family wanted to move to Seattle

(c; Moderate)

82. What is **not** true about Kevin Plank, founder of Under Armour:

- a. He started his company because he was tired of changing a sweat-drenched T-shirt after morning and afternoon football practices
- b. His net is now about \$2 billion
- c. He was always interested in athletics

d. To earn money to pay for his graduate school tuition
(d; Moderate)

83. Which of the following business options makes it easiest for the owner to predict future business success?

- a. Joining a cooperative
- b. Buying a franchise
- c. Spinning off from a corporation
- d. Buying an existing business

(b; Moderate)

84. The monthly fee that a franchisee must pay to keep the company's trade name is called a(n) _____.

- a. royalty fee
- b. advertising fee
- c. franchise fee
- d. trade fee

(a; Moderate)

85. If you run a _____, you may find that you must adhere to certain rules even if you disagree with some of them.

- a. previously owned business
- b. franchise
- c. limited liability corporation
- d. partnership

(b; Moderate)

86. The most important step in the process of starting a business is _____.

- a. creating a business plan
- b. getting financing
- c. generating a mission statement
- d. assembling a team of managers

(a; Moderate)

87. The final step in the process of starting a business is _____.

- a. getting your financing
- b. creating your business plan
- c. deciding if you need partners
- d. researching your customer base

(a; Moderate)

88. In addition to your initial investment, you will have to pay a(n) _____ to cover your share of national and regional advertising.

- a. advertising fee
- b. management charge
- c. business assessment

d. royalty fee

(a; Easy)

89. A franchise business is appealing because franchisers _____.

- a. provide a proven business model
- b. will buy your excess inventory
- c. will supply temporary managerial help
- d. all of these

(a; Hard)

90. The key to coming up with a great business idea is to:

- a. develop an innovative product or service.
- b. provide a product or service that no one else offers.
- c. fill an unmet need.
- d. offer a product that is similar to others.

(c; Moderate)

91. Which of the following is the most important question you need to ask yourself when you're thinking about starting a business?

- a. Can I manage a business by myself?
- b. What will customers want to buy?
- c. Do I want to buy an existing business?
- d. Where will the startup funds come from?

(b; Easy)

92. The key to developing a _____ is filling an unmet need.

- a. mission statement
- b. marketing niche
- c. business idea
- d. franchise opportunity

(c; Easy)

Scenario-Based

Brothers Ronnie and Jacob are both in college; Ronnie is a senior and Jacob a sophomore. They're both majoring in business administration and want to open a small business a few years after graduation. They understand that it's important to gain more management experience and build good credit ratings. Ronnie wants more security in his work and would be satisfied working with an older partner until he "learns the ropes." More than Jacob, he'd prefer a business that's been established for a few years. Although he likes a certain degree of independence, he's willing to follow directions and take advice. Jacob, on the other hand, wants more freedom to make his own choices and to succeed or fail on his own merits. He's quite creative and likes to set his own rules.

93. By following your advice, Ronnie would probably enjoy all of the advantages of small business ownership **except** _____.

- a. time commitment
- b. financial rewards
- c. lifestyle freedom
- d. creative freedom and personal satisfaction

(a; Easy)

94. Among the disadvantages of business ownership, Jacob would probably balk at the prospect of _____.

- a. financial risk
- b. time commitment
- c. stress
- d. unlimited liability

(d; Easy)

95. As Jacob's business advisor, what would you probably advise him to do?

- a. Start a business from scratch.
- b. Buy an existing business.
- c. Buy a franchise.
- d. Go into business with his brother.

(a; Moderate)

96. Among the disadvantages of business ownership, both brothers would probably balk at the prospect of _____.

- a. time commitment
- b. stress
- c. undesirable duties
- d. financial risk

(c; Hard)

97. If you were a business advisor, what would you probably recommend for Ronnie?

- a. Start a business from scratch.
- b. Buy an existing business.
- c. Buy a franchise.
- d. Go into business with his brother.

(c; Hard)

Medium-Length Discussion

98. Explain the benefits of obtaining a franchise.

Benefits include the right to use a company's brand name and sell its products, the availability of advertising and help in picking a location, and the ability to start and operate a business. In effect, you've bought a prepackaged, ready-to-go business that's proven successful elsewhere. You also get ongoing support from the franchiser, who has a vested interest in your success.

(Easy)

99. Evaluate the differences between starting a new business from scratch and buying an existing business.

Although starting a business from scratch is the riskier option, this approach lets owners start with clean slates and allows them to build their businesses the way they want. Entrepreneurs select the goods or services that they want to offer, the locations of their businesses, and all of their employees, but it's up to them to develop customer bases and build reputations. If you decide to buy an existing business, you'll already have a proven product, customers, suppliers, a known location, and trained employees. It will also be much easier to predict the future success of your business.

(Moderate)

Essay Discussion

100. How does franchising work and in what industries do we find franchises?

You may obtain a small business by buying a franchise. As the buyer, you're the franchisee and have purchased the right to use the seller's (franchisor's) brand name and to sell its goods or services. Because the franchisor will help you in finding a location and start and operate your business, as well as furnish advertising, you're getting a prepackaged business that's proven successful elsewhere. Franchises are used to market products in a variety of industries, including food, retail, hotels, travel, real estate, cleaning and other services, and even weight-loss centers and wedding services. There are thousands of franchises, many of which are quite familiar—SUBWAY®, McDonald's, 7-Eleven, Holiday Inn, Budget Rent-A-Car, Radio Shack, and Jiffy Lube.

(Hard)

Section 2.7: The Business Plan

True/False

101. The "Management Plan" section of the business plan provides information about the qualifications of each member of the management team.

(True; Easy)

102. The "Target Market" section of the business plan profiles future customers.

(True; Easy)

103. The "Financial Plan" section of the business plan reports the amount of cash needed by the company for startup and initial operations.

(True; Easy)

104. The most important step in the process of starting a business is creating a business plan—a document that identifies a company's goals and explains how they'll be achieved.

(True; Moderate)

105. A business plan explains the goods and services that you intend to sell and specifies the qualifications of your management team.

(True; Moderate)

106. The “Executive Summary” provides an overview of your business plan by paraphrasing key sentences from each section of the plan.

(True; Moderate)

107. The “Mission Statement” section of the business plan contains the fundamental beliefs about what is and what isn’t appropriate and important in conducting company activities.

(False; Moderate)

108. The most common use of a business plan is to persuade potential customers to buy your goods or services.

(False; Hard)

109. The “Executive Summary” section of a business plan answers the question “What is the outlook for the industry?”

(False; Hard)

110. The “Development and Production” section of the business plan explains why your proposed offerings will be better than those of competitors.

(False; Hard)

Multiple Choice

111. In her business plan, Shelia Pataki has included a two-page overview called the _____.

- a. “Executive Summary”
- b. “Production Overview”
- c. “Business Summary”
- d. “Mission Statement”

(a; Easy)

112. The _____ section of the business plan describes the purpose of the proposed business—its reason for existence.

- a. “Executive Summary”
- b. “Core Values”
- c. “Mission Statement”
- d. “Justification Analysis”

(c; Easy)

113. The _____ section of the business plan tells the reader what the organization is committed to doing.

- a. "Core Values"
- b. "Consumer Rights"
- c. "Mission Statement"
- d. "Management Plan"

(c; Easy)

114. Which of the following topics is/are included in the "Marketing" section of the business plan?

- a. Target market
- b. Pricing
- c. Promotion
- d. All of these

(d; Easy)

115. Donna Graves has just completed research to determine the types of advertising to use in her proposed business. She will discuss advertising under the _____ heading in the "Marketing" section of her business plan.

- a. "Pricing"
- b. "Target Market"
- c. "Promotion"
- d. "Distribution"

(c; Easy)

116. Before asking for a \$155,000 bank loan, Shelia Pataki must include a(n) _____ in her business plan.

- a. executive summary
- b. map of her proposed location
- c. bank statement
- d. list of loan guarantors

(a; Moderate)

117. Sometimes the only section of a business plan that readers will consider is the _____.

- a. "Mission Statement"
- b. "Production Overview"
- c. "Business Summary"
- d. "Executive Summary"

(d; Moderate)

118. Which of the following questions is addressed in the business plan section entitled "Description of Proposed Business"?

- a. What goods or services will the business provide?
- b. Where will the business be located?
- c. How will the business's goods or services be sold?

d. All of these.

(d; Moderate)

119. The question “What is the outlook for the industry?” is taken up in the _____ section of the business plan.

- a. “Description of Proposed Business”
- b. “Mission Statement”
- c. “Industry Analysis”
- d. “Competitive Overview”

(c; Moderate)

120. The _____ section of the business plan describes the fundamental beliefs about what is and isn’t appropriate in conducting company activities.

- a. “Core Values”
- b. ”Mission Statement”
- c. “Dos and Don’ts”
- d. ”Key Competencies”

(a; Moderate)

121. “To preserve and improve human life” best illustrates a _____.

- a. corporate responsibility statement
- b. statement of core value
- c. statement of consumer rights
- d. mission statement

(d; Moderate)

122. When it has more than one _____, a business can operate as a partnership or a corporation.

- a. director
- b. location
- c. employee
- d. owner

(d; Moderate)

123. The _____ section of the business plan is designed to convince the reader that the company will be operated by well-qualified and experienced people.

- a. “Mission Statement”
- b. “Management Plan”
- c. ”Personnel Overview”
- d. “Executive Summary”

(b; Moderate)

124. The _____ section of the business plan specifies the proposed legal form of the organization—sole proprietorship, partnership, or corporation.

- a. “Mission Statement”
- b. “Executive Summary”

- c. "Description of Proposed Business"
- d. "Management Plan"

(d; Moderate)

125. The _____ section of the business plan explains why your proposed offerings are better than those of competitors and indicates what market needs will be met by your products.

- a. "Development and Production"
- b. "Marketing"
- c. "Global Issues"
- d. "Goods, Services and the Production Process"

(d; Moderate)

126. In the "Marketing" section of a business plan, the _____ section describes the proposed business's typical business customer.

- a. "Distribution"
- b. "Promotion"
- c. "Target Market"
- d. "Pricing"

(c; Moderate)

127. The _____ section of a business plan specifies the firm's cash needs and explains how the owners will be able to repay its debts.

- a. "Financial Plan"
- b. "Development and Production"
- c. "Industry Analysis"
- d. "Management"

(a; Moderate)

128. The executive summary section of a business plan:

- a. is written before other parts of the plan are written.
- b. provides detailed information about the company's management team.
- c. comes at the end of the business plan.
- d. is the most important part of the business plan.

(d; Moderate)

129. Which of the following is **not** an important reason for preparing a business plan?

- a. To persuade investors to invest in your company
- b. To obtain financing from a bank
- c. To use as a yardstick by which you can measure your business' performance
- d. All of the above are reasons for preparing a business plan

(d; Moderate)

130. A _____ is considered a blueprint for a company.

- a. business idea
- b. business plan

- c. mission statement
 - d. partnership agreement
- (b; Hard)**

131. Even though the _____ is often the first thing that readers consider, it's usually written _____ the other sections of the plan are completed.

- a. "Mission Summary" / before
- b. "Executive Summary" / after
- c. "Management Summary" / before
- d. "Business Summary" / after

(b; Hard)

132. The _____ section of your business plan tells the reader where you will purchase products for resale.

- a. "Goods, Services and the Production Process"
- b. "Industry Analysis"
- c. "Management Plan"
- d. "Financial Plan"

(a; Moderate)

133. Peter Jackson has included the résumés of his management team and a set of financial statements in his business plan. In what section of the plan will a bank officer find this information?

- a. "Financial Plan"
- b. "Appendices"
- c. "Development and Production"
- d. "Core Values"

(b; Hard)

Scenario-Based

In order to meet the financial needs for future business growth as well as current demands, TruWood Cabinet Makers must secure a business loan of \$125,000 from a local bank. The loan committee has asked owner and general manager Jarret Jones to write a comprehensive business plan that meets all of First Security Bank's requirements for such a large loan. After a lot of research and careful writing, the plan is constructed and ready for presentation to the loan committee.

134. The section of his business plan in which Jones sets forth the purpose of his cabinet-making business—its reason for existing—is called the _____.

- a. "Executive Summary"
- b. "Vision Statement"
- c. "Statement of Goals"
- d. "Mission Statement"

(d; Easy)

135. Jones knows that busy loan officers don't have the time to read his entire plan and prefer instead a synopsis or a condensed version that summarizes it. To address this fact, Jones:

- a. limited his plan to 8–10 pages.
- b. included a well-written executive summary.
- c. turned the project over to a professional writer.
- d. thoroughly documented all research findings and projections.

(b; Moderate)

136. The dollars and cents of the business plan are especially important to loan committees. Jones is well aware that an entrepreneur must show how, when, and why the business will make a profit. He thus ensures that his _____ section details his startup costs and sources of funding, his projections of sales revenue, cost of goods sold, operating and financing expenses, profits, and his forecasts of cash flow.

- a. financial plan
- b. marketing
- c. production and operations
- d. management

(a; Moderate)

137. Jones includes a(n) _____ section in his business plan to cover items of interest that aren't otherwise covered in it—his résumé, copies of sales contracts, a copy of his lease, and so on.

- a. marketing
- b. production and operations
- c. personal
- d. appendix

(d; Moderate)

138. As a practical businessman, Jones knows that his business plan must demonstrate his knowledge of his customers (including the demographics of various customer segments), product promotion, pricing, and the essentials of distribution. Thus his inclusion of a strong _____ plan.

- a. marketing
- b. promotion and advertising
- c. industry analysis
- d. financial and management

(a; Hard)

Short Discussion

139. What is the most common use of a business plan?

The most common use of a business plan is persuading investors and/or lenders to provide financing. Investors are particularly interested in the quality of the business concept and the ability of management to make the venture successful.

(Easy)

140. What does a mission statement do?

The mission statement describes the purpose or mission of your organization—its reason for existence. It tells the reader what your organization is committed to doing. It can be concise or it may be fairly detailed.

(Easy)

Medium-Length Discussion

141. What elements does a business plan encompass?

A business plan tells the story of your business concept. It specifies the qualifications of your management team and describes your legal form of business ownership. It also explains the goods or services that you intend to sell. It identifies your customers and competitors, describes your approach to product development, production methods, and marketing activities, and details your projected profits and borrowing needs.

(Moderate)

Section 2.8: How to Succeed in Managing a Business

True/False

142. The critical financial concept of cash flow tracks money coming in as well as money going out of a business.

(True; Easy)

143. Under the Small Business Administration's SCORE program, retired executives help business people who need advice.

(True; Easy)

144. In order to limit your financial risk, it's usually advisable to pour limited financial resources into a new business.

(False; Moderate)

145. Almost one-third of small businesses that have employees go out of business within the first two years.

(True; Moderate)

146. As a business owner, if you need individualized advice from experienced executives on how to manage your business, you can get it through the Service Corps of Retired Executives (SCORE).

(True; Easy)

Multiple Choice

147. Managing the money that comes in and goes out of a business means managing _____.

- a. equity
- b. the bottom line
- c. cash flow
- d. debits and credits

(c; Easy)

148. To succeed in a business, a new owner must understand _____.

- a. the basics of business management
- b. the principles of cash flow
- c. the essentials of time management
- d. all of these

(d; Easy)

149. Under the Small Business Administration's _____ program, a businessperson needing advice is matched with a team of retired executives who work on a volunteer basis.

- a. S&P
- b. SCORE
- c. SWOT
- d. SPCA

(b; Easy)

150. Accounting, finance, management, marketing, and production are the _____ areas of business.

- a. decision-making
- b. functional
- c. bottom-line
- d. distribution

(b; Moderate)

151. When you believe in what you're doing and make a strong personal commitment to your business, you are displaying:

- a. a creative commitment to business management.
- b. a proper attitude toward business ownership.
- c. basic business know-how.
- d. an ethical attitude toward business conduct.

(b; Moderate)

152. The Small Business Administration offers an array of programs to help small business owners and prospective business owners. Services include all of the following **except** assistance in _____.

- a. interviewing job candidates
- b. managing operations

- c. obtaining financing
 - d. developing a business plan
- (a; Moderate)**

153. Which of the following are provided to business people by the SBA?

- a. Business training
- b. Individualized advice by a team of retired executives
- c. Help in obtaining financing
- d. All of the above

(d; Moderate)

154. To be successful in business, you should:

- a. avoid changes.
- b. handle all aspects of your business yourself.
- c. keep an eye on competitors.
- d. become a specialist in one particular area of business.

(c; Moderate)

155. Which of the following is **not** a reason that many business fail?

- a. They run into cash flow problems
- b. They grow too rapidly
- c. The owners lack managerial experience
- d. They focus on the customer rather than their product or service

(d; Moderate)

156. The startup phase of a business usually lasts for more than ____.

- a. 6 months
- b. 3 years
- c. 5 years
- d. 1 year

(d; Hard)

157. A new business owner can expect to work ____ hours a week on average.

- a. 40
- b. 50
- c. 60
- d. 70

(c; Hard)

158. James Brolen is a man of many talents and abilities. After six months in business, however, things aren't going well, and Brolen doesn't quite understand why. Among other things, he sometimes worries more about problems at home than about customer needs, spends a little too much time poring over e-mails, and tries to balance work and life by keeping up with a couple of hobbies. What's Brolen's *biggest* problem?

- a. Lack of time-management skills
- b. Lack of customer focus

- c. Lack of managerial experience
- d. Lack of financial focus

(b; Hard)

Short Discussion

159. List three reasons why some businesses fail.

The failure rate for small businesses is high, and the reasons include bad business ideas, managerial inexperience or incompetence, lack of customer focus, and inability to handle growth.

(Easy)

Essay Discussion

160. Explain at least three of the nine keys to succeeding in managing a business.

Being successful as a business owner requires more than coming up with a brilliant idea and working hard. You need to learn how to manage and grow your business. As an owner, you'll also need to know your business, know the basics of business management, have the proper attitude, get adequate funding, manage your money effectively, manage your time effectively, know how to manage people, satisfy your customers, and know how to compete.

(Moderate)