Chapter 5

Entrepreneurship

Chapter Objectives
After completing this chapter, you will be able to:

Section 5.1 Rewards and Challenges of Entrepreneurship
• Define entrepreneur and entrepreneurship.
• List at least five rewards of being an entrepreneur.
• Identify at least four challenges of being an entrepreneur.
• Discuss why entrepreneurs are important to the American economy.

Section 5.2 The Business Plan
• Discuss the initial steps in setting up a business.
• Identify the parts of a business plan.

Ask

STANDARD &POOR’S
The Value of a Long-Term Investment Strategy

Q: I have read that it is important for a new investor to invest for the long-term. What does this mean, why is this important, and how do I do it?

A: “Long-term” usually means five years or beyond. Investments meant for the long term, such as stocks, tend to fluctuate. Money designated for short-term events is best kept in safer havens, such as savings accounts. The risk of loss in the stock market diminishes with time, though.

Mathematics You are planning to save for 20 years of retirement. Just before you retire, your annual salary will be the equivalent of about $50,000 in today’s dollars. You will need 70% to 80% of your pre-retirement income to maintain your lifestyle. Based on this rule, you would need a minimum of $35,000 for your first year of retirement. Replace the variables in the algebraic expression below and evaluate the expression to calculate how much money you will need to retire.

Evaluate $xy$ if $x = 20$ and $y = 35,000$

CONCEPT Algebra: Variables and Expressions Algebra is a language of symbols. A variable is a symbol, often a letter, used to represent a number. Algebraic expressions are combinations of variables, numbers, and at least one operation. Once the variables have been replaced, you can evaluate, or find the value of, the algebraic expression.
Realizing a Dream  The opening of a new business is a proud moment for entrepreneurs. What dreams might entrepreneurship turn into reality in your life?
Rewards and Challenges of Entrepreneurship

Read to Learn
• Define entrepreneur and entrepreneurship.
• List at least five rewards of being an entrepreneur.
• Identify at least four challenges of being an entrepreneur.
• Discuss why entrepreneurs are important to the American economy.

The Main Idea
An entrepreneur is someone who recognizes a business opportunity and organizes, manages, and assumes the risks of starting a business. Entrepreneurs face many challenges. However, those who succeed see many rewards.

Key Concepts
• Entrepreneurship
• Rewards of Entrepreneurship
• Challenges of Entrepreneurship
• The Impact of Small Businesses

Vocabulary
Key Terms
small business
virtual business or dot-com company

Academic Vocabulary
You will find these words in your reading and on your tests. Make sure you know their meanings.
area
significant
research
estimate

Graphic Organizer
In a chart like the one below, list four rewards and four challenges of being an entrepreneur as you read.

<table>
<thead>
<tr>
<th>Rewards</th>
<th>Challenges</th>
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Go to the Introduction to Business Online Learning Center through glencoe.com for a printable graphic organizer.

Academic Standards
English Language Arts
NCTE 1 Read texts to acquire new information
NCTE 4 Use written language to communicate effectively

Mathematics
Problem Solving Apply and adapt a variety of appropriate strategies to solve problems
Entrepreneurship

If you have ever thought about going into business for yourself, then you have thought about becoming an entrepreneur. An entrepreneur is a person who recognizes a business opportunity and organizes, manages, and assumes the risks of starting and operating a business. Entrepreneurship is the process of recognizing an opportunity, testing it in the market, and gathering the resources necessary to go into business.

Creating and running a business venture requires a variety of skills. A venture is a new business undertaking that involves risk. Even if you do not become an entrepreneur, the lessons you learn about entrepreneurship will help you in any job. Knowing more about business will also benefit you as a consumer.

Personal Characteristics of Entrepreneurs

Most entrepreneurs have similar characteristics. The Small Business Administration (SBA) created a checklist to help people see if they have the recommended traits for a career in entrepreneurship. These traits include leadership, decision-making, self-discipline, planning, and people skills.

![Figure 5.1](image-url)

**Twelve Characteristics of Successful Entrepreneurs**

- **Persistent**: Entrepreneurs are willing to work until a job is done, no matter how long it takes.
- **Risk-taking**: Entrepreneurs take risks, but they are not reckless.
- **Self-confident**: Entrepreneurs believe in themselves.
- **Restless**: Once entrepreneurs achieve their goals, they start looking for new challenges.
- **Goal-oriented**: Entrepreneurs set and achieve goals.
- **Action-oriented**: Entrepreneurs are doers instead of spectators. They take action.
- **Responsible**: Entrepreneurs take responsibility for their decisions and actions.
- **Self-demanding**: Entrepreneurs have high expectations.
- **Creative**: Entrepreneurs look for new ways to solve old problems.
- **Independent**: Entrepreneurs want to make their own decisions.
- **Inquisitive**: Entrepreneurs conduct research and ask questions to solve problems.
- **Enthusiastic**: Entrepreneurs are energetic and passionate about their pursuits.

**Ranking the 12 Traits**

Entrepreneurs plan for success by setting goals. In what order would you rank the importance of these entrepreneurial characteristics?
Small Businesses

The SBA is a U.S. government agency that protects the interests of small businesses. It defines a small business as an independently owned business that usually has the owner as its manager. A small business serves a limited geographic area and employs fewer than 500 people.

Internet Businesses

Many entrepreneurs open virtual businesses. A virtual business or dot-com company is a business that operates on the Internet. Many dot-com companies make shopping easier and more efficient for consumers. This shows how an entrepreneurial venture can make a significant improvement to what already exists.

Online businesses have the potential to attract a huge number of customers. Anyone who has an Internet connection can purchase from them. According to American City Business Journals, small businesses that use the Internet have grown more than 45 percent faster than those that do not.

Get Creative! How to Build Innovative Companies

Listen closely. There’s a new conversation under way across America that may well change your future. If you work for Procter & Gamble Co. or General Electric Co., you already know what’s going on. If you don’t, you might want to stop what you’re doing and consider this:

The Knowledge Economy as we know it is being eclipsed by something new—call it the Creative Economy. Even as policymakers and pundits wring their hands over the outsourcing of engineering, software writing, accounting, and myriad other high-tech, high-end service jobs—not to mention the move of manufacturing to Asia—U.S. companies are evolving to the next level of economic activity.

What was once central to corporations—price, quality, and much of the left-brain, digitized analytical work associated with knowledge—is fast being shipped off to lower-paid, highly trained Chinese and Indians, as well as Hungarians, Czechs, and Russians. Increasingly, the new core competence is creativity—the right-brain stuff that smart companies are now harnessing to generate top-line growth. The game is changing. It isn’t just about math and science anymore. It’s about creativity, imagination, and, above all, innovation.

Case Study Go to the Introduction to Business Online Learning Center through glencoe.com for the BusinessWeek Reader Case Study.

Active Learning

Work with a partner to start thinking creatively, use your imaginations, and innovate a new product. Choose one person to write copy for an ad for the new product. Have the other person draw the product, placing it in a setting most likely to attract buyers. Present your finished ad to your class.
Rewards of Entrepreneurship

People become entrepreneurs for a number of reasons besides making money. Being the boss, doing what they enjoy, and using their creativity are just a few.

Being the Boss

An important advantage of being a small-business owner is the ability to be in charge. In fact, this is the main reason people become entrepreneurs. Unlike people who run corporations and partnerships, entrepreneurs do not have to consult with others before making a decision.

Doing What You Enjoy

A business venture typically starts with an activity that the entrepreneur enjoys. Someone who enjoys cooking for others might start a catering business. Someone who likes to ride bikes might open a bike shop. The new business owner gets satisfaction from developing the enterprise.

Having the Opportunity to Be Creative

Most people who work for others follow procedures. Entrepreneurs make procedures. They are able to shape a business in ways employees cannot. This is especially true with daring or creative ideas. A business owner with a creative idea has the power to act on it.

Building an Enterprise

Many successful entrepreneurs work in a related business before starting their own company. People who decide to open a business must consider whether to buy an existing company or start a new one. They must research the viability of the venture and choose the form of business to start.

Real World

Young Entrepreneurs

More than ever, teens are starting businesses across the country. The SBA even offers a teen business link at its Web site. The link helps teens determine if their ideas have potential. The site also helps put them on a path toward entrepreneurship. List reasons for teens to strike out on their own. Research entrepreneurs who started businesses while they were still students.

Reading Check

Identify What are some reasons to become an entrepreneur?

Sole Proprietorships, Partnerships, and Corporations

Most U.S. businesses are sole proprietorships, which means they are owned and operated by one person. Another form of business is a partnership. A partnership is owned and run by two or more people. A corporation has many owners. Corporations are run by a chief executive officer, who answers to a board of directors.

Sole proprietors do not share their company's income and expenses, profits or losses. All responsibilities rest with the sole proprietor. The sole proprietor assumes all of the risks and reaps all of the benefits. You will learn more about the different types of business organizations in Chapter 6.
Other Reasons for Entrepreneurship

Entrepreneurs enjoy developing their own schedule. Many run home-based businesses, such as consultancies or editing, housekeeping, and bookkeeping services. They make an economic contribution to their community through investment and the creation of jobs. Entrepreneurs are rewarded for assuming risk.

Challenges of Entrepreneurship

There are rewards to becoming an entrepreneur. There are also some challenges that business owners deal with in order to be successful.

Getting Funds to Start the Business

One of the biggest obstacles in starting a business is obtaining financing. Most people must borrow money to start their business. It is often difficult to get loans from financial institutions. They are concerned about whether the business would succeed and they would be repaid.

Being Fully Responsible for the Business

Business owners are responsible for more than just decision making. They must see that everything gets done—from sweeping the floors and paying the bills, to hiring employees and making repairs. Duties include handling financial records as well as training employees.
Other Challenges for Entrepreneurs

Entrepreneurs also face the challenge of feeling alone and insecure about making the right decisions. They work long hours, especially during start-up. They also face uncertain income levels and the risk of losing their investment if the business fails. About four out of five small businesses fail in their first five years. Most failures are due to inadequate financial planning and management, and a poor response to change.

The Impact of Small Businesses

More than 99 percent of U.S. firms are small businesses. Small businesses employ more than 50 percent of the U.S. workforce. A majority of them are one-person operations that generate more than half the nation’s income. Small businesses are also the principal source of new jobs. Some estimate that two-thirds of all new jobs are generated by small businesses. The number of virtual businesses continues to increase. This allows more small businesses to enter the global marketplace and other economies.

Section 5.1

Review Key Concepts

1. What are some characteristics of successful entrepreneurs?
2. What reward is the main reason most people become an entrepreneur?
3. Identify some of the challenges of entrepreneurship.

Academic Skills

4. Mathematics  Rick is thinking about starting his own business. The start-up costs he has identified include $12,000 to lease an office, $25,000 for inventory, and $30,000 for the first year’s payroll. For the first year, he projects that he would make a slight profit of $3,250. Would it be better to use the money to open the business or to invest the money in a savings bond with a first-year return of 5.99 percent?

As You Read

Think about ways you could lose an investment in a new business. What can be done to help prevent this from happening?
Think of some reasons for having a business plan before starting a business.

Read to Learn

- Describe how to prepare for your own business.
- Discuss the parts of a business plan.

The Main Idea

Once an entrepreneur discovers a good business opportunity, the next step is to do market research. Market research helps to determine whether there will be a demand for a new product or service. It can also uncover issues to address in a business plan.

Key Concepts

- Initial Steps in Setting up a Business
- Parts of a Business Plan

Vocabulary

Key Terms
- business plan
- executive summary
- vision statement
- mission statement

Academic Vocabulary

You will find these words in your reading and on your tests. Make sure you know their meanings.
- section
- concept
- established
- data

Graphic Organizer

Using a figure like the one below, fill in the parts of a business plan as you read.

Academic Standards

English Language Arts
- NCTE 1 Read texts to acquire new information
- NCTE 4 Use written language to communicate effectively
- NCTE 7 Conduct research and gather, evaluate, and synthesize data to communicate discoveries
- NCTE 11 Participate as members of literacy communities
- NCTE 12 Use language to accomplish individual purposes

Science
- Content Standard G Students should develop understanding of science as a human endeavor, nature of scientific knowledge, and historical perspectives
Initial Steps in Setting up a Business

Before you decide to start a particular business, you need to see if there is a demand for your product or service. This requires doing market research. If your market research shows that your business has the potential to succeed, then develop a business plan. A **business plan** is a written description of a new business venture that describes all aspects of the business. It helps entrepreneurs focus on what they want to do, how they will do it, and what they expect to accomplish. The business plan is used by potential investors and financing agencies that new entrepreneurs go to for start-up funds.

Checklist for Starting a Venture

A checklist is a good way to organize your thinking when you begin planning your own business. Entrepreneurs should keep these questions and their answers in mind as they develop and write their business plan.

Here are some questions to consider:

- What will I produce?
- Who are my main competitors?
- Why is my product or service needed?
- How much will my product or service cost to produce?
- How many people will I need to run the business?
- What physical facilities will I need?
- What licenses, permits, or other legal documents do I need?
- How much money will I need to get started?

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As You Read

Think about how careful planning increases a new business’s chances of success.

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Identify List some questions to consider before starting a business.

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Parts of a Business Plan

A business plan must be well organized and easy to read. It must also follow a logical format. There are 16 essential parts of a business plan.

**Executive Summary**

The **executive summary** is a brief account of the key points contained in a business plan. It should be no more than two pages and should include the most important information from each **section** of the plan. It should open with a compelling story to persuade the reader that the business is going to succeed. Then it should support that statement with evidence gathered through market research.
Management Team Plan

This section presents your qualifications and those of any partners you might have. You must describe your team’s capabilities to execute your business concept. You should discuss how you will fill gaps in expertise. You may need to hire consultants, or form partnerships or advisory boards.

Company Description

The description of the firm provides an outline of the business. It helps investors understand the size, scope, and type of business you plan to start. It describes the business opportunity and explains why the venture will succeed.

Product and Service Plan

Describe the product or service you want to offer. The nature of your business should be clear. You should note the unique features of the product or service and possible spin-offs. Spin-offs are additional products and services that you might offer when the business is more established. They show that the venture has growth potential.

Vision and Mission Statements

The vision and mission statements section states the guiding principles by which a business functions. A vision statement establishes the scope and purpose of a company and reflects its values and beliefs. A mission statement expresses the specific aspirations of a company, the major goals it will try to reach.
Industry Overview
This section presents your research of the industry. Every business operates within an industry. Think of your industry as companies that provide similar, complementary, or different products and services. Discuss trends and growth within the industry.

Market Analysis
This section presents research about your customer profile. The results help you determine your overall marketing and sales strategies. In addition, this section analyzes your customers and the competition. Include geographic, economic, and demographic data about the target market and business location.

Competitive Analysis
Indicate how the proposed business has an advantage over its competitors. You can gather information on competitors by viewing their Web sites; talking to their customers, vendors, suppliers, and employees; and attending trade shows. See if any articles have been written about them.

Marketing Plan
A marketing plan discusses how a company makes its customers aware of its products or services. It includes features such as the market niche, pricing, company image, marketing tactics, a media plan, and a marketing budget.

The Technology Sector
Digital technology has the ability to improve our personal and business lives in many ways. Technology is one of the fastest growing sectors of our economy. The increasing demand for consumer electronics, such as iPods and digital cameras, the popularity of cell phones, and the opening up of new markets around the world have fueled the impressive growth of this sector. For the individual investor, buying shares in a technology sector mutual fund is a way to capitalize on this growth. However, investing in a single sector of the economy carries with it greater risk than does a more diversified approach to investing.

Mission Statements
A mission statement should clearly express a company’s main goals. Find an example of a good mission statement on the Internet. What makes your example a good model?

Go to the Introduction to Business Online Learning Center through glencoe.com for links to Web sites where you can find more information about technology sector mutual funds. List one or two mutual funds as examples. Then write a sentence or two describing their investment strategies, goals, and objectives.
Operational Plan
The operational plan includes the business processes that result in production and delivery of the product or service.

Organizational Plan
This part looks at the people who will run the firm as well as management’s philosophy. The form of business organization that is chosen, such as a sole proprietorship, is also discussed.

Financial Plan
This section presents forecasts for the business. Data are usually shown in financial statements. The plan provides proof that the new business will be financially healthy.

Growth Plan
The growth plan looks at how the business will expand in the future. Investors and lenders like to know that a business has plans to grow and deal with growth.

Figure 5.2 — Parts of a Business Plan

Creating a Business Plan There are several steps involved in creating a business plan. Do you think one part of the business plan is more important than the others?
Contingency Plan

The contingency plan looks at likely risks to the business, such as lower-than-expected sales and emergencies that might affect it. It then suggests a way to minimize risk.

Cover Page, Title Page, Table of Contents, and Supporting Documents

The cover page should include the company’s name, address, phone number, Web site and e-mail addresses, and logo. The title page follows the cover page. It includes the company name; the names, titles, and addresses of the owners; the date the plan was submitted; and the name of its preparer. The table of contents details the components of the business plan. Supporting documents include exhibits and other information relevant to the business.

Section 5.2

After You Read

Review Key Concepts

1. Why is a business plan important?
2. Why should entrepreneurs carefully study their competitors before starting a business?
3. Why is a growth plan important to include in a business plan?

Academic Skills

4. **English Language Arts** With a partner or small group, brainstorm and write questions you can use to interview two or three entrepreneurs or small-business owners. Think of questions that will get the interviewees to tell how their lives changed as a result of starting or running a small business. Present the interview results to the class as part of a panel discussion. Compare and contrast the stories with information presented in the text.

5. **English Language Arts** You want to strengthen your entrepreneurial skills. Complete these steps to learn more about other entrepreneurs and yourself:
   - Reading: Go online or to the library and read articles and books about entrepreneurial activities.
   - Writing: Write about individuals you know who are entrepreneurs and the obstacles they had to overcome.
   - Watching: Find films about athletes, businesspeople, or others who achieved success.
   - Practice: Find case studies that involve goals, creativity, and risk taking.

Go to the Introduction to Business Online Learning Center through glencoe.com to check your answers.
Rewards and Challenges of Entrepreneurship An entrepreneur is a person who recognizes a business opportunity, tests it in the market, and gathers the resources necessary to start and operate a business. Entrepreneurs make or sell products or services to meet consumers’ wants and needs. Some advantages of being an entrepreneur include being the boss, doing what you enjoy, having the opportunity to be creative, building an enterprise, and possibly making a substantial income. Challenges include getting start-up funds, risk of failure, and having an uncertain income. Small businesses are important to the U.S. economy because they provide goods and services, and jobs.

The Business Plan Before you decide to start a particular business, you need to see if there is demand for your product or service. This requires doing market research. If research shows that you have a viable business, then develop a business plan. A business plan is a written description of a new business venture. It describes all aspects of the business. It also helps entrepreneurs to focus on exactly what they want to do, how they will do it, and what they expect to accomplish. The business plan is an essential tool to attract potential investors and financing agencies for start-up funds. It includes a description of the firm, market analysis, competitive analysis, and financial information.

Vocabulary Review
1. On a sheet of paper, use each of these key terms and academic vocabulary terms in a sentence.

Key Terms
- small business
- virtual business or dot-com company
- business plan
- executive summary
- vision statement
- mission statement

Academic Vocabulary
- area
- significant
- research
- estimate
- section
- concept
- established
- data

Review Key Concepts
2. Define entrepreneur and entrepreneurship.
3. Describe five rewards of being an entrepreneur.
4. Describe four challenges of being an entrepreneur.
5. Describe the reasons entrepreneurs are important to the American economy.
6. Describe how to prepare for your own business.
7. Discuss the parts of a business plan.
Critical Thinking

8. Many Internet businesses have started and failed. Why do you think some virtual businesses fail?

9. It is important that entrepreneurs be take-charge, self-directed people. Why do you think this is true?

10. What are some reasons the owner of a business usually puts in more hours at work than an employee?

11. Why is it important for small-business owners to keep good financial records?

12. The industry overview section of the business plans calls for the entrepreneur to analyze the trends of the industry in which the entrepreneurial venture falls. Why is this information an important part of the business plan?

13. Give reasons why some small businesses fail if they do not respond quickly to change. Why do you think it is difficult for small businesses to respond quickly to change?


15. Review the 12 characteristics of successful entrepreneurs. Think about the traits that you have. Why do you think you have these traits? How could they benefit you as an entrepreneur?

Write About It

16. Look for an opportunity that you think could be turned into a small business. Write a one-page essay outlining the nature of the opportunity and why you think it has potential.

17. Select three business opportunities to pursue in your community. Talk to someone who knows the business community in your area, such as the head of the chamber of commerce. Determine whether these are good ideas. Then write an e-mail to the business leader reviewing your discussion.

18. Visit a nearby library and select a book or article on the life of an entrepreneur. The entrepreneur could be living or deceased. Read the account, and write a report on his or her life, noting your subject’s influences, obstacles, education, and experience with starting a business.

19. Go to the U.S. Census Bureau’s Web site and research the latest survey of small business. Determine how many jobs are created and how much income is generated by small business. Write a 500-word report based on your findings. Discuss the importance of small businesses to economies.

Technology Applications

Internet

20. Use word-processing software to create a survey that can be sent to local small-business owners and entrepreneurs. Find out what technical skills they possess and will need in the future. As a class, compile the results using spreadsheet or database software.

Business Ethics

Making Ethical Decisions

21. For the grand opening of your hardware store, you issue flyers advertising lawn mowers for $150. However, you have only five mowers. Should you encourage customers to buy more expensive ones or issue rain checks for the advertised price?
Applying Academics to Business

English Language Arts
22. The ability to innovate is a key skill for a successful entrepreneur. What does it mean to be innovative? Write a sentence or two explaining what it means to be innovative. List synonyms, antonyms, and related words.

Mathematics
23. In one year, the combined purchasing power of minority groups in the United States was $1.3 trillion, or 20 percent of the country’s purchasing power. It is estimated that, in 40 years, minority-group purchasing power will equal $4.3 trillion, or 32 percent of the total. By how much will the country’s total purchasing power grow over 40 years?

CONCEPT Numbers and Operations: Working With Large Numbers Problems like this can be solved more easily by expressing large numbers using scientific notation. A number expressed in scientific notation is the product of a decimal between 1 and 10 and a power of 10. For example, $1,100 = 1.1 \times 10^3$.

English Language Arts
24. In one type of paragraph, a statement is followed by examples that support it. In another type, a cause is presented followed by a description of its effect. Write two paragraphs about the special skills an entrepreneur needs. Use a statement-and-example organization for one and cause-and-effect for the other.

Mathematics
25. The business plan for a large corporation called for 15.5 percent of annual profits to be reinvested in research and development (R & D) of new products. If this company shows $3.4 million in revenue and $2.8 million in expenses, how much would be invested in R & D?

CONCEPT Number and Operations: Decimals and Percents A percent can be converted to a decimal by moving the decimal point two places to the left and dropping the percent sign. To solve this problem, multiply profits (revenue less expenses) by 0.155.

Active Learning
Investigate Product Loyalties
26. Create an inventory of the products and services you and your family use that are produced or offered by small businesses. Categorize them by family member. Then interview each family member. Discover why he or she purchases the products or services from a small business. Make a report of your results. Share it with the class.

Business in the Real World
Research a Small-Business Idea
27. With a classmate, research the requirements for setting up a small business venture in your community. Investigate areas such as government regulations, financing, and the cost of leasing space and buying equipment. The local chamber of commerce might direct you in your research. Write a report on your findings.
Increasing Your Entrepreneurial Skills

28. Turn back to Figure 5.1 and assess how many entrepreneurial skills you have. Identify three characteristics that you think could be improved. Write a 250-word essay on how you could improve in those areas.

Find Your Dream Job

29. Go to the Introduction to Business Online Learning Center through glencoe.com for a link to the Occupational Outlook Handbook Web site. Click on the “OOH Search/A-Z Index” link and enter the job title “operations research analyst.” Then write a one-page report about this type of occupation. Conclude your report with a list of things you could do now to prepare yourself to pursue the occupation.

30. Situation You are seeking funds to start a new business venture. Along with a business plan, you must give an oral presentation to a banker to consider before loaning you the money.

Activity Create a presentation that focuses on various aspects of the business plan.

Evaluation You will be evaluated on how well you meet the following performance indicators:

• Describe the new business venture.
• Cover at least seven of the parts of a business plan.
• Use visuals when necessary.
• Make persuasive arguments.
• Use clear diction and correct grammar.

Standardized Test Practice

Directions Choose the letter of the best answer. Write the letter for the answer on a separate piece of paper.

1. Which word or phrase should be left out of the following sentence in order to change it from passive voice to active voice?

A successful owner of a small business is one who possesses multiple skills.

A successful
B of a small business
C is one who
D multiple

TEST-TAKING TIP When answering multiple-choice questions, ask yourself if each option is true or false. This may help you find the best answer if you are unsure.

Reading Go to the Introduction to Business Online Learning Center through glencoe.com for a list of outside reading suggestions.