

***Entrepreneurship: Successfully Launching New Ventures, 3e (Barringer/Ireland)***

**Chapter 4 Writing a Business Plan**

1) GroupTable, the company profiled in the opening feature for Chapter 4, was founded to build a group collaboration platform with \_\_\_\_\_ in mind.

- A) non-profit organizations
- B) managers
- C) college professors
- D) government employees
- E) college students

Answer: E

Diff: 1      Page Ref: 111

Topic: The Business Plan

AACSB: Reflective Thinking

2) Trevor Combs is thinking about launching a small business consulting company. To get advice on how to proceed, he stopped by his local Small Business Administration (SBA) office. The SBA advisor told Trevor that one of the first things he needs to do is to sit down and write a 25 to 35 page narrative that describes what his new business plans to accomplish and how it plans to accomplish it. The SBA advisor is telling Trevor to write a:

- A) tactical plan
- B) marketing plan
- C) operations plan
- D) business plan
- E) competitive plan

Answer: D

Diff: 1      Page Ref: 112

Topic: The Business Plan

3) Which of the following is the main purpose for writing a business plan?

- A) The plan helps the company develop a "road map" to follow.
- B) The plan introduces potential investors and other stakeholders to the business opportunity.
- C) Both A and B are equally important.
- D) Neither A nor B captures the true purpose of a business plan.
- E) Reason A is the most important for experienced entrepreneurs and reason B is the most important for inexperienced entrepreneur.

Answer: C

Diff: 2      Page Ref: 112

Topic: The Business Plan

4) According to the textbook, a business plan is best described as a:

- A) narrative description of a new business
- B) contract
- C) budget
- D) agreement
- E) marketing initiative

Answer: A

Diff: 2      Page Ref: 112

Topic: The Business Plan

5) According to the textbook, only \_\_\_\_\_ of the 600 entrepreneurs that participated in a recent Wells Fargo/Gallup Small Business Study indicated that they had started their venture with a business plan.

- A) 6 percent
- B) 31 percent
- C) 22 percent
- D) 14 percent
- E) 48 percent

Answer: B

Diff: 3      Page Ref: 113

Topic: The Business Plan

6) A business plan is important for two reasons: it forces the founding team to systematically think through every aspect of their new venture and:

- A) it is a budget
- B) it is a public relations document that can be used to promote the firm
- C) it is a contract that is signed by the founders of the firm
- D) it is a financial analysis
- E) it communicates the merits of a new venture to outsiders, such as investors and bankers

Answer: E

Diff: 2      Page Ref: 113

Topic: The Business Plan

7) Which of the following statement is incorrect about business plans?

- A) Writing a business plan forces a firm's founders to systematically think through each aspect of their new venture.
- B) For most new ventures, the business plan is a dual-purpose document used both inside and outside the firm.
- C) A business plan is typically 25 to 35 pages long.
- D) A large percentage of entrepreneurs do not write business plans for their new ventures.
- E) The business plan should be written while the feasibility analysis is being completed.

Answer: E

Diff: 2      Page Ref: 113

Topic: The Business Plan

8) The document that does the best job of introducing potential investors and other stakeholders with the business opportunity the firm is pursuing and how it plans to pursue it is the:

- A) business plan
- B) feasibility analysis
- C) opportunity analysis
- D) industry analysis
- E) marketing plan

Answer: A

Diff: 1      Page Ref: 113

Topic: The Business Plan

9) There are two primary audiences for a business plan:

- A) a firm's employees and officials with the SEC
- B) a firm's customers and its competitors
- C) investors and other external stakeholders and public relations firms
- D) officials with the SEC and public relations firms
- E) a firm's employees and investors and other external stakeholders

Answer: E

Diff: 2      Page Ref: 115

Topic: The Business Plan

10) There are two primary audiences for a business plan: a firm's employees and:

- A) officials with the SEC
- B) investors and other external stakeholders
- C) a firm's competitors
- D) a firm's customers
- E) public relations firms

Answer: B

Diff: 2      Page Ref: 115

Topic: The Business Plan

11) Which of the following is not an individual, group or institution that normally reads a company's business plan?

- A) board of directors
- B) potential alliance partners and major customers
- C) state and local government officials
- D) key recruits for jobs with the new firm
- E) rank-and-file employees

Answer: C

Diff: 2      Page Ref: 115

Topic: The Business Plan

AACSB: Reflective Thinking

- 12) Which of the following is not a recommended guideline for writing a business plan?
- A) To make the best impression, a business plan should follow an unconventional structure and stand out in some dramatic way.
  - B) A business plan needs to project a sense of anticipation and excitement about the possibilities that surround a new venture.
  - C) For most plans, 25 to 35 pages is sufficient.
  - D) A business plan should look sharp, but not a lot of money should be spent on the physical appearance of the plan.
  - E) Shy away from using a lot of boldfaced type, italics, clip art, and different font sizes and colors when preparing a business plan.

Answer: A

Diff: 2      Page Ref: 116

Topic: The Business Plan

- 13) Which of the following is not one of the "red flags" listed in the textbook that raises questions about one of more aspects of a company's business plan?

- A) founders with none of their own money at risk
- B) defining the market size too narrowly
- C) a poorly cited plan
- D) sloppiness in any area
- E) overly aggressive financials

Answer: B

Diff: 2      Page Ref: 116

Topic: The Business Plan

- 14) Which of the following is one of the "red flags" listed in the textbook that raises questions about one or more aspects of a company's business plan?

- A) It takes several days or weeks to complete.
- B) Founders that have their own money at risk.
- C) overly aggressive financials
- D) It is less than 50 pages long.
- E) It is directed towards both an external and an internal audience.

Answer: C

Diff: 2      Page Ref: 116

Topic: The Business Plan

- 15) Which of the following statements is incorrect regarding business plans?

- A) A firm's business plan is typically the first aspect of a proposed venture that will be seen by an investor.
- B) To make the best impression, a business plan should follow an unconventional structure, so it will stand out.
- C) A business plan has both an external and an internal audience.
- D) A company's business plan is typically written by its founders.
- E) Potential investors are typically keenly interest in a company's business plan.

Answer: B

Diff: 2      Page Ref: 117

Topic: The Business Plan

16) For most business plans \_\_\_\_\_ pages are sufficient.

- A) 40 to 60
- B) 25 to 40
- C) 5 to 10
- D) 25 to 35
- E) 10 to 15

Answer: D

Diff: 2      Page Ref: 117

Topic: The Business Plan

17) There are three types of business plans:

- A) functional business plan, full business plan, feasibility plan
- B) summary business plan, contingency plan, full business plan
- C) functional business plan, contingency plan, full business plan
- D) opportunity plan, feasibility plan, full business plan
- E) summary business plan, full business plan, operational business plan

Answer: E

Diff: 2      Page Ref: 117

Topic: The Business Plan

18) Cindy Kramer is in the very early stages of putting together a business startup, and is thinking about writing a business plan to request funds to conduct a feasibility analysis and write a more complete business plan. What type of business plan should Cindy write at this point?

- A) full business plan
- B) tactical business plan
- C) summary business plan
- D) operational business plan
- E) strategic business plan

Answer: C

Diff: 2      Page Ref: 117

Topic: The Business Plan

AACSB: Reflective Thinking

19) A \_\_\_\_\_, which is typically 25 to 35 pages long, works best for new ventures who are at the point where they need funding or financing.

- A) tactical business plan
- B) deliberate business plan
- C) summary business plan
- D) full business plan
- E) operational business plan

Answer: D

Diff: 2      Page Ref: 117

Topic: The Business Plan

20) A(n) \_\_\_\_\_, which is intended to be a blueprint for a company's operations, is 40-100 pages long and is meant primarily for an internal audience.

- A) operational business plan
- B) full business plan
- C) deliberate business plan
- D) summary business plan
- E) tactical business plan

Answer: A

Diff: 2      Page Ref: 117

Topic: The Business Plan

21) Pam Andrews has decided to write a business plan that is intended to be read primarily by her staff, which will present a blueprint for her company's entire operation and will provide guidance to operational managers. Pam should write an:

- A) operational business plan
- B) tactical business plan
- C) deliberate business plan
- D) summary business plan
- E) functional business plan

Answer: A

Diff: 2      Page Ref: 117

Topic: The Business Plan

AACSB: Reflective Thinking

22) Match the business plan with its appropriate length:

- A) operational business plan, 10-15 pages
- B) full business plan, 25-35 pages
- C) summary business plan, 25-35 pages
- D) full business plan, 40 to 100 pages
- E) operational business plan, 25-35 pages

Answer: B

Diff: 3      Page Ref: 117

Topic: The Business Plan

23) Match the business plan with its appropriate emphasis:

- A) summary business plan, works best for companies who are at the point where they need funding or financing; serves as a "blueprint" for the company's operations
- B) operational business plan, works best for companies in the early stages of development that want to "test the waters" to see if investors are interested in their idea
- C) full business plan, works best for companies in the early stages of development that want to "test the waters" to see if investors are interested in the idea
- D) summary business plan, is meant primarily for an internal audience; works best as a tool for creating a blueprint for a company's operations and providing guidance to operational managers
- E) summary business plan, works best for companies in the early stages of development that want to "test the waters" to see if investors are interested in their idea

Answer: E

Diff: 2      Page Ref: 117

Topic: The Business Plan

- 24) The Savvy Entrepreneurial Firm feature for Chapter 4 focuses on three companies: Skullcandy, Zillow, and Riya. The overarching point of the feature is:
- A) most business plan require major changes after the business is launched and the founder's start getting customer feedback
  - B) the degree to which business plans pan out as their founders envisioned varies
  - C) most business plans require only minor changes after the business is launched and the founders start getting customer feedback
  - D) the most effective business plans take three to six weeks to complete
  - E) most business plans are quickly discarded after the business is launched

Answer: B

Diff: 2      Page Ref: 119

Topic: Outline of the Business Plan

AACSB: Reflective Thinking

- 25) The \_\_\_\_\_ is a short overview of the entire business plan.

- A) administrative review
- B) executive summary
- C) managerial review
- D) founder's introduction
- E) synopsis

Answer: B

Diff: 2      Page Ref: 120

Topic: Outline of the Business Plan

- 26) Which of the following statements is incorrect regarding the executive summary of a business plan?

- A) It is a short overview of the entire business plan.
- B) In many instances an investor will first ask for a copy of a firm's executive summary and will request a copy of the full business plan only if the executive summary is sufficiently convincing.
- C) It is arguably the most important section of the business plan.
- D) It should not exceed two single-spaced pages.
- E) The executive summary is the first thing that should be written in preparing a business plan.

Answer: E

Diff: 3      Page Ref: 120

Topic: Outline of the Business Plan

27) Paul Hempken just spoke to an investor, who is interested in his business idea. Paul offered to send the investor a copy of his full business plan, but the investor asked for a short overview of the business plan instead. What portion of his business plan should Karen send the investor:

- A) marketing plan
- B) executive summary
- C) elevator pitch
- D) company description
- E) operations plan

Answer: B

Diff: 2      Page Ref: 120

Topic: Outline of the Business Plan

AACSB: Reflective Thinking

28) According to the textbook, the \_\_\_\_\_ is arguably the most important section of a business plan.

- A) appendix
- B) industry analysis
- C) operations plan
- D) financial plan
- E) executive summary

Answer: E

Diff: 2      Page Ref: 120

Topic: Outline of the Business Plan

29) A company's mission statement should be placed in the \_\_\_\_\_ section of its business plan.

- A) marketing plan
- B) management team and company structure
- C) company description
- D) market analysis
- E) industry analysis

Answer: C

Diff: 2      Page Ref: 122

Topic: The Business Plan

30) A(n) \_\_\_\_\_ describes why a company exists and what it aspires to become.

- A) tactical statement
- B) values statement
- C) mission statement
- D) operations statement
- E) strategic statement

Answer: C

Diff: 2      Page Ref: 122

Topic: The Business Plan

31) A \_\_\_\_\_, in a business plan context, is a noteworthy event in the past or future development of a business.

- A) aspiration
- B) intention
- C) signpost
- D) milestone
- E) target

Answer: D

Diff: 2      Page Ref: 122

Topic: Outline of the Business Plan

32) The Partnering for Success feature in Chapter 4 focuses on the types of partnerships that are common in business plans. According to the feature, businesses often make partnering an essential part of their business plans because they:

- A) want to obtain a key customer
- B) want to increase their visibility
- C) want to reduce risk
- D) what to appear legitimate
- E) have limited resources

Answer: E

Diff: 2      Page Ref: 123

Topic: Outline of the Business Plan

AACSB: Reflective Thinking

33) Which of the following statements is incorrect regarding the industry analysis portion of a firm's business plan?

- A) It is important to focus simultaneously on a business's industry and its target market.
- B) Industry structure refers to how concentrated or fragmented an industry is.
- C) Most industries have 6 to 10 key success factors that should be reported in the industry analysis.
- D) Industry trends should be discussed, which include both environmental and business trends.
- E) The industry trends portion of the industry analysis is arguably the most important section.

Answer: A

Diff: 2      Page Ref: 124

Topic: Outline of the Business Plan

34) The \_\_\_\_\_ section of a business plan breaks the industry into segments and zeroes in on the specific segment (or target market) to which the firm will try to appeal to.

- A) competitive analysis
- B) current status
- C) market analysis
- D) marketing plan
- E) operations plan

Answer: C

Diff: 2      Page Ref: 124

Topic: Outline of the Business Plan

35) A competitor analysis should be included in the \_\_\_\_\_ section of a business plan.

- A) market analysis
- B) industry analysis
- C) company description
- D) management team and company structure
- E) operations plan

Answer: A

Diff: 2      Page Ref: 125

Topic: Outline of the Business Plan

36) Which of the following statements is incorrect regarding the marketing plan section of a business plan?

- A) The marketing plan focuses on how the business will market and sell its product or service.
- B) The two most important items to include in a marketing plan are (1) overall marketing strategy and (2) the nuts and bolts of marketing a firm's product in terms of product, price, promotion, and place.
- C) The best way to describe a company's marketing plan is to begin by talking about its competitors.
- D) A firm's marketing strategy refers to its overall approach for marketing its products and services.
- E) A firm's overall approach to marketing typically boils down to how it positions itself in its market and how it differentiates itself from its competitors.

Answer: C

Diff: 2      Page Ref: 125

Topic: Outline of the Business Plan

37) According to the textbook, many investors and others who read business plans look first at the executive summary and then go directly to the \_\_\_\_\_ section of the business plan to make their preliminary assessment.

- A) management team and company structure
- B) product (or service) design and development plan
- C) industry analysis
- D) marketing plan
- E) operations plan

Answer: A

Diff: 2      Page Ref: 127

Topic: Outline of the Business Plan

38) What section of the business plan deals with the day-to-day operations of a company?

- A) financial plan
- B) marketing plan
- C) operations plan
- D) industry analysis
- E) executive summary

Answer: C

Diff: 2      Page Ref: 127

Topic: Outline of the Business Plan

39) A(n) \_\_\_\_\_ is a graphic representation of how authority and responsibility are distributed within a company.

- A) organizational chart
- B) personnel chart
- C) human resources chart
- D) administrative chart
- E) directional chart

Answer: A

Diff: 2      Page Ref: 127

Topic: Outline of the Business Plan

40) The facilities and equipment that a business needs should be described in the \_\_\_\_\_ section of its business plan.

- A) marketing plan
- B) management team and company structure
- C) company description
- D) market analysis
- E) operations plan

Answer: E

Diff: 2      Page Ref: 127

Topic: Outline of the Business Plan

41) The \_\_\_\_\_ section of the business plan outlines how your business will be run and how your product or service will be produced.

- A) operations plan
- B) company description
- C) management team and company structure
- D) marketing plan
- E) market analysis

Answer: A

Diff: 2      Page Ref: 127

Topic: Outline of the Business Plan

42) A computer-generated image of an invention that displays the invention as a 3D model that can be viewed from all sides and rotated 360 degrees is called a:

- A) virtual prototype
- B) concept visualization
- C) abstract prototype
- D) virtual design
- E) usability test

Answer: A

Diff: 2      Page Ref: 128

Topic: Outline of the Business Plan

43) A prototype is:

- A) a form of opportunity recognition
- B) a tool for evaluating the industry a new firm plans to enter
- C) a financial model
- D) the first physical depiction of a new product
- E) a tool for evaluating the organizational prowess of a new firm

Answer: D

Diff: 2      Page Ref: 128

Topic: Outline of the Business Plan

44) The document that lays out specifically how much money a firm needs, where the money will come from, and what the money will be used for is referred to as a:

- A) sources and uses of funds statement
- B) assumptions sheet
- C) pro forma financial statement
- D) credit and debit statement
- E) capital and operational budgeting statement

Answer: A

Diff: 2      Page Ref: 128

Topic: Outline of the Business Plan

45) Katherine Payne was reading the business plan for New Venture Fitness Drinks, and noticed that prior to its financial statements, New Venture Fitness Drinks placed an explanation of the sources of the numbers for the statements and the assumptions used to generate them. This explanation is called a(n):

- A) estimate sheet
- B) hypothesis sheet
- C) assumptions sheet
- D) forecast sheet
- E) forecast hypothesis

Answer: C

Diff: 2      Page Ref: 128

Topic: Outline of the Business Plan

46) According to the textbook, the \_\_\_\_\_ are the heart of the financial section of a business plan.

- A) financial ratios
- B) pro forma financial statements
- C) budgets
- D) sources and uses of funds statements
- E) break-even analyses

Answer: B

Diff: 2      Page Ref: 129

Topic: Outline of the Business Plan

47) Most business plan writers interpret or make sense of a firm's historical and/or pro form financial statements through:

- A) ratio analysis
- B) assumptions analysis
- C) scenario analysis
- D) proportion analysis
- E) relative analysis

Answer: A

Diff: 2      Page Ref: 130

Topic: Outline of the Business Plan

48) According to the textbook the first rule in making an oral presentation is to:

- A) follow instructions
- B) be creative
- C) emphasize all the positive aspects of a business venture
- D) appear confident
- E) do something out of the ordinary

Answer: A

Diff: 2      Page Ref: 131

Topic: Presenting the Business Plan to Investors

49) According to the textbook, in the first meeting investors typically focus on:

- A) legal and tax issues and whether a real opportunity exists
- B) whether the new venture is properly structured and whether a real opportunity exists
- C) whether a real opportunity exists and whether the management team has the skills and experience to pull off the venture
- D) the new venture's marketing plans and the whether the new venture has intellectual property that can be patented
- E) industry and competitor analysis and whether the management team has the skills and experience to pull off the venture

Answer: C

Diff: 2      Page Ref: 131

Topic: Presenting the Business Plan to Investors

AACSB: Reflective Thinking

50) According to the textbook, in the first meeting investors typically focus on whether the management team has the skills and experience to pull off the venture and:

- A) whether the new venture is properly structured
- B) whether the new venture has intellectual property
- C) legal and tax issues
- D) whether a real opportunity exists
- E) industry and competitor analysis

Answer: D

Diff: 2      Page Ref: 131

Topic: Presenting the Business Plan to Investors

51) A feasibility plan is a written narrative that describes what a new business plans to accomplish and how it plans to accomplish it.

Answer: FALSE

Diff: 1      Page Ref: 112

Topic: The Business Plan

52) A business plan is typically between 25 and 35 pages long.

Answer: TRUE

Diff: 2      Page Ref: 112

Topic: The Business Plan

53) For most new ventures, the business plan is a dual-purpose document used both inside and outside the firm.

Answer: TRUE

Diff: 2      Page Ref: 112

Topic: The Business Plan

54) A business plan can usually be completed in one to three days.

Answer: FALSE

Diff: 2      Page Ref: 113

Topic: The Business Plan

55) There are two primary audiences for a firm's business plan: a firm's employees and investors and other external stakeholders.

Answer: TRUE

Diff: 2      Page Ref: 113

Topic: The Business Plan

56) To make the best impression, a business plan should follow an unconventional structure and stand out in some exceptional way.

Answer: FALSE

Diff: 2      Page Ref: 116

Topic: The Business Plan

57) An operational business plan is between 40 and 100 pages, it is meant primarily for an internal audience, and works best as a tool for creating a blueprint for a new venture's operations and providing guidance to operational managers.

Answer: TRUE

Diff: 2      Page Ref: 117

Topic: The Business Plan

58) According to the textbook, the marketing plan portion of a business plan is arguably the most important section of the plan.

Answer: FALSE

Diff: 2      Page Ref: 120

Topic: The Business Plan

59) The executive summary is a lengthy overview of the entire business plan.

Answer: FALSE

Diff: 2      Page Ref: 120

Topic: Outline of the Business Plan

60) Even though the executive summary appears at the beginning of the business plan, it should be written last.

Answer: TRUE

Diff: 2      Page Ref: 121

Topic: The Business Plan

61) A milestone is a noteworthy or significant event.

Answer: TRUE

Diff: 2      Page Ref: 122

Topic: The Business Plan

62) Fragmented industries are more receptive to new entrants than industries that are dominated by a handful of large firms.

Answer: TRUE

Diff: 2      Page Ref: 124

Topic: Outline of the Business Plan

63) A company's industry analysis and target market analysis are usually included in the same section of its business plan.

Answer: FALSE

Diff: 2      Page Ref: 124

Topic: Outline of the Business Plan

64) A competitor analysis, which is a detailed analysis of a firm's competitors, should be included in the market analysis section of its business plan.

Answer: TRUE

Diff: 2      Page Ref: 125

Topic: Outline of the Business Plan

65) A firm's marketing strategy refers to its overall approach for marketing its products and services.

Answer: TRUE

Diff: 2      Page Ref: 125

Topic: Outline of the Business Plan

66) The management team and company structure section of a business plan is one of the lesser read sections.

Answer: FALSE

Diff: 2      Page Ref: 126

Topic: Outline of the Business Plan

67) An organizational chart is a graphic representation of how authority and responsibility are distributed within a company.

Answer: TRUE

Diff: 2      Page Ref: 127

Topic: Outline of the Business Plan

68) A sources and uses of funds statement is a document that lays out specifically how much money a firm needs, where the money will come from, and what the money will be used for.

Answer: TRUE

Diff: 2      Page Ref: 128

Topic: Outline of the Business Plan

69) The pro forma financial statements are the heart of the operations section of a business plan.

Answer: FALSE

Diff: 2      Page Ref: 129

Topic: Outline of the Business Plan

70) The first rule in making oral presentation is to be as creative as possible.

Answer: FALSE

Diff: 2      Page Ref: 131

Topic: Presenting the Business Plan to Investors

71) What is a business plan?

Answer: A business plan is a written narrative, typically 25 to 35 pages long, that describes what a new business plans to accomplish and how it plans to accomplish it.

Diff: 1      Page Ref: 112

72) What are the two main reasons for writing a business plan.

Answer: First, writing a business plan forces a firm's founders to systematically think through each aspect of their new venture. Second, writing a business plan creates a selling document for a company. It provides a mechanism for a young company to present itself to potential investors, suppliers, business partners, key job candidates, and others.

Diff: 2      Page Ref: 113

73) Experienced entrepreneurs often refer to business plans as "living, breathing documents."

What is meant by this characterization of business plans?

Answer: An important aspect of writing a business plan is to recognize that the plan will usually change as it is being written. New insights invariably emerge when an entrepreneur or team of entrepreneurs immerse themselves in writing the plan and start getting feedback from others. This process continues throughout the life of a company, and it behooves entrepreneurs to remain alert and open to new insights and ideas. As a result of this phenomenon, entrepreneurs who have written business plans and have launched successful businesses stress that a business plan is a living, breathing document, rather than something that is set in stone.

Diff: 2      Page Ref: 118

74) What is an "executive summary?" Why is the executive summary often called the most important part of a business plan?

Answer: The executive summary is a short overview of the entire business plan; it provides a business reader with everything that needs to be known about a new venture's distinctive aspects. The executive summary is important because it is often the first (or only) part of a business plan that a busy investor or other stakeholders will read. As a result, unless the executive summary is compelling, the business plan may not get any additional attention.

Diff: 2      Page Ref: 120

75) Why is the "management team and company structure" section of the business plan often given disproportionate weight among investors?

Answer: Investors read more business plans with interesting ideas and exciting markets than they are able to finance. As a result, it's often not the idea or market that wins funding among competing plans, but the perception that one management team is better prepared to execute their idea than the others.

Diff: 2      Page Ref: 126