

CHAPTER 13

MANAGEMENT AND OPERATIONS STRATEGY

Author's Note

This chapter provides an overview of the process, or operations, side of a new venture. It is organized into three parts: organization, location, and people. The chapter does not attempt to cover all the management and organization issues that face a new venture, but rather some of the critical issues that entrepreneurs should be aware of.

To prepare to learn how the business works and acquire the information necessary to do complete financial statements for the business plan, the chapter also deals with the fantasy tour of the business. This is a way to picture all the activities of the business including the people and equipment necessary to conduct those activities. It is also a way to approach the consideration of the location of the business.

Learning Objectives

This chapter will give students an understanding of:

- The way a typical business works
- How to find the appropriate business site
- How to organize the start-up team

Supplementary Lecture Material

Location Matters

In the information age, one would think that perhaps location no longer matters, since many businesses can be operated virtually from anywhere. But there is evidence to the contrary. Certainly for retail outlets serving the consumer, location is critical to success. You have to locate where customers go, where they expect to find you. That's why you'll find a Home Depot close to a Lowes home improvement center, even though they're competitors. It makes it easier for customers to comparison shop.

Location matters for another reason. Some regions or cities are just more suited to start-up businesses. They provide incentives, have a skilled workforce at affordable wages, and a quality of life that makes it easier to recruit management positions. Moreover, these regions and communities offer networks of angel investors, mentors, and professional advisors like accountants, lawyers, and others who can help the new venture make it through start-up. Some believe that the "entrepreneurial vitality of a region is directly related to the strength of its networks." In Louisville, Kentucky, for example, business leaders are working hard to build up entrepreneurial support networks. In one situation, an entrepreneur had to find the specialized legal advice he needed to form a strategic alliance in San Jose, California. But in doing so, he took his hometown legal team with him so they could learn how these deals work and add their skills to the Louisville network. That kind of attitude is one reason that Louisville has become one of the best places to start a business. Location matters.

Source: George Gendron, "What's in a Place?" Inc. Magazine, August 1, 2001.

Films to Rent

Reinventing the Corporation

Using a hypothetical corporation, this film brings together a panel of experts to wrestle with the issues of effective corporate governance and maximizing shareholder value.

www.films.com

57 minutes

Item: **BVL10430**

Format: **VHS**

List Price: **\$149.95**

Rental Price: **\$75.00**

Tom Peters: Radically Reengineering Business

Tom Peters has some very radical views of how business needs to change itself. Using four case studies, Peters presents a compelling case for change.

www.films.com

59 minutes

Item: **BVL9210**

Format: **VHS**

List Price: **\$149.95**

Rental Price: **\$75.00**

Cases Relevant to This Chapter

Roland International Freight Service

Wizards of the Coast

Answers to Issues to Consider

1. *What are the advantages and disadvantages of a virtual company?*

You can build a virtual company in an industry without incurring the risk of employees, costly equipment, and enormous overhead. You can operate the company from anywhere. On the other hand, it is frustrating to give up some control to other companies because a virtual company requires partners. Getting virtual partners to meet entrepreneurs' demands for quality, timeliness, and efficiency can be a long and difficult process.

2. *What is the purpose of the imaginary tour of the business?*

The tour allows you to visualize and list all the functions, people, equipment, supplies, and space required to run the business. This information will be important when it comes time to develop the financial projections.

3. *Which important factors in choosing a retail site would not be relevant to a manufacturing site and vice versa?*

With a retail site, you need to determine the trade area, accessibility to the site, and provide a facility that attracts consumers. Normally consumers or end-users do not go to manufacturing facilities.

4. *Explain two disadvantages of short-term leasing.*

With short-term leasing rents are escalated more frequently, and it is more difficult to remodel mid-term.

5. *What are the advantages and disadvantages of using stock as compensation and incentives?*

Giving someone ownership rights in the company through equity is a way to avoid having to use limited cash resources for compensation. It is generally believed that providing stock increases commitment, reduces cash outlay for salaries, and induces loyalty to the company in the long term. But the reality is that it does not usually induce loyalty and a new venture that can't afford the best talent does not want to find itself stuck with someone who cannot meet its needs.

6. *How can the entrepreneur improve the chances of choosing the best job candidate?*

To have the best chance of hiring the right people, the entrepreneur should seek candidates from among current employees, subcontractors, or professional advisers. Conduct background checks and call references. Conduct interviews that get at the character of the individual.

7. *List three alternatives to equity incentives for key management.*

- a. Deferred compensation plans
- b. Bonus plans
- c. Capital appreciation rights

Suggestions for Experiencing Entrepreneurship

1. *Choose an industry in which you have an interest. Find a business in that industry and do a flowchart of the business process, based on visiting the site and talking with key personnel. Did you find any inefficiencies that if corrected could improve the process flow?*

Follow the process from order taking to customer payment. For manufacturing businesses, this will also include the manufacturing process. Students should discover that most businesses have many processes that are linked in some manner to accomplish the purpose of the business.

2. *Interview an entrepreneur about his or her hiring practices. How successful have those practices been in getting and retaining good employees?*

It might be interesting to compare the findings of the students to come up with a "best practices" list that students can refer to when they start their businesses or go to work for someone else and have to hire employees.