***Business Foundations: A Changing World, 12e* (Ferrell)**

**Appendix A Guidelines for the Development of the Business Plan**

1) When preparing a business plan, you are encouraged to submit your idea for approval to your instructor as soon as possible.

Answer: TRUE

Explanation: You are encouraged to submit your idea for approval to your instructor as soon as possible. This will eliminate wasted effort on an idea that is not feasible in the instructor's view.

Difficulty: 1 Easy

Topic: The Business Plan

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

2) In a business plan, a business description identifies the target market and develops a strategy for appealing to it.

Answer: FALSE

Explanation: A business description consists of an overview of the existing good/service or the good/service/business you will be starting. This includes developing a mission and a rationale for why you believe the business will be a success.

Difficulty: 1 Easy

Topic: The Business Plan

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

3) The executive summary in a business plan appears first but should be written last.

Answer: TRUE

Explanation: In a business plan, the executive summary appears first but should be written last.

Difficulty: 1 Easy

Topic: The Business Plan

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

4) When preparing a business plan, one of the decisions you will need to make regarding the marketing strategy is the type of product you want to offer.

Answer: TRUE

Explanation: As part of your marketing strategy, you must develop target market specifics and decide what type of product you want to offer. You should also create a detailed rationale of the perceived differential advantage of your product offering.

Difficulty: 1 Easy

Topic: The Business Plan

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

5) When preparing a business plan, one of the operational issues you need to resolve is determining how many personnel are needed and what their required education and skills should be.

Answer: FALSE

Explanation: Operational issues involve determining how you will make or provide your product. The human resources requirement involves determining the number and description of personnel needed, including realistic required education and skills.

Difficulty: 1 Easy

Topic: The Business Plan

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

6) Which of the following is the best reason that you should submit your business plan idea to your instructor as early as possible?

A) to get feedback on ways to improve your idea

B) to pique your instructor's interest in your idea

C) to eliminate wasted effort on unfeasible ideas

D) to request your instructor's help in researching your idea

E) to make sure your idea is completely different from what other students are doing

Answer: C

Explanation: You are encouraged to submit your idea for approval to your instructor as soon as possible. This will eliminate wasted effort an idea that is not feasible in the instructor's view.

Difficulty: 2 Medium

Topic: The Business Plan

Bloom's: Understand

AACSB: Analytical Thinking

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7) Christina's instructor asked each student in her class to develop a hypothetical business plan for a new and unique good, service, or business. Her idea is to start a new online beauty consulting firm. What is the first thing she should do to start this project?

A) write an executive summary for her business

B) create a marketing plan for her business

C) do some online research to see if similar businesses exist

D) talk to owners of similar businesses to make sure her idea is feasible

E) submit her idea to her instructor for approval

Answer: E

Explanation: The first thing Christina should do to start this project is submit her idea to her instructor for approval. This will allow her instructor to determine if her idea is feasible, thus eliminating wasted effort on Christina's part.

Difficulty: 3 Hard

Topic: The Business Plan

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

8) Business plan proposals will be evaluated based on

A) whether your business will ultimately succeed or fail.

B) their thoroughness and your ability to provide support for the idea.

C) the originality of your idea.

D) your ability to sell your product to your peers.

E) your ability to show proven sales results.

Answer: B

Explanation: Business plan proposals will be evaluated based on their thoroughness and your ability to provide support for the idea.

Difficulty: 1 Easy

Topic: The Business Plan

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

9) Joe is creating a business plan for a new robot that can do his homework for him. What element should his business proposal include?

A) a competitive analysis

B) a detailed product drawing

C) a detailed and final plan for producing the product

D) a comprehensive and fully developed marketing plan

E) a sample version of his product

Answer: A

Explanation: Joe's business proposal should include a business description, a brief marketing plan (which will be further developed as the plan evolves), and a competitive analysis. This analysis should identify the competition as broadly as possible and indicate why this business will be successful in given the market.

Difficulty: 3 Hard

Topic: The Business Plan

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

10) Bethany is developing a business proposal for a new vegetarian frozen foods brand. Her business description should include all of the following EXCEPT

A) an overview of the frozen vegetarian foods she wants to produce.

B) her vision for the proposed frozen vegetarian foods.

C) a reason that these frozen vegetarian foods should be produced.

D) a strategy for appealing to her target market.

E) a rationale for why she believes her business will succeed.

Answer: D

Explanation: Bethany's business description should consist of an overview of the frozen vegetarian foods she wants to produce. This includes developing a mission (reason for existence; overall purpose of the firm) and a rationale for why she believes this business will be a success. This description should relay her vision for the proposed product.

Difficulty: 3 Hard

Topic: The Business Plan

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

11) Daniel wants to start a new spin studio. He believes that spin studios that exist as part of established gyms are not effective because spinning requires a dark room and loud music. He also doesn't like that most gyms only have a few spin classes per day. He plans to hire enough instructors to offer more classes throughout the day, not just during the high traffic morning and evening time frames. His overall purpose is to provide the optimal conditions for spinning and to start a community that works together to reach fitness goals through spinning. Which element of a business description does this scenario best describe?

A) a rationale

B) a mission

C) an objective

D) a competitive analysis

E) a target market analysis

Answer: B

Explanation: In regard to the business description, this scenario best describes a mission, which is a reason for existence or the overall purpose of the firm.

Difficulty: 3 Hard

Topic: The Business Plan

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

12) Which component of the brief marketing plan should be included in the business proposal?

A) selecting a name for the business

B) developing a reason for the business's existence

C) explaining why you want to start this business

D) revealing your vision for the business

E) indicating why this business will be successful given the market

Answer: A

Explanation: The brief marketing plan should describe the business, identify the target market and develop a strategy to appeal to it, justify the proposed location, describe how you will promote the business, provide a rationale for your pricing strategy, and select a name for the business. The name should be catchy yet relate to the competencies of the business.

Difficulty: 2 Medium

Topic: The Business Plan

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

13) Debbie is preparing a business proposal for a new local art studio and store, called The Craft Collective. To describe the business, she wrote that her store would be a place where local artists could display and sell their pieces for a small fee. Since she wants to attract people who live in her community, she plans to hold monthly gallery shows with food and drinks to provide a sense of community among the artists and the locals. She believes that these events will encourage members of the community to buy unique artworks for their homes and offices. Which element of a business proposal does this scenario best describe?

A) a brief marketing plan

B) an executive summary

C) a human resources requirement

D) a business description

E) a competitive analysis

Answer: A

Explanation: This scenario best describes a brief marketing plan, which should describe the business or product, identify the target market and develop a strategy for appealing to it, justify the proposed location, describe how the new business will be promoted, provide a rationale for the pricing strategy, and select a name for the business.

Difficulty: 3 Hard

Topic: The Business Plan

Bloom's: Apply

AACSB: Reflective Thinking

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14) Josh lives in a small town in New Hampshire, and he wants to open a new coffee shop in his town. He identifies that there are several corporate chain coffee shops in the area that offer the same options in all their locations. He believes that his community would rather support a local business than corporations and that the locals would prefer coffee drinks and pastries that appeal to their tastes, rather than generic offerings. Which element of a business proposal does this scenario best describe?

A) a brief marketing plan

B) a business description

C) an executive summary

D) a financial projection

E) a competitive analysis

Answer: E

Explanation: This scenario describes a competitive analysis, which should identify the competition as broadly as possible and indicate why the new business will be successful given the market.

Difficulty: 3 Hard

Topic: The Business Plan

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

15) Which of the following should appear first in the final written business plan?

A) the business description

B) the industry and market analysis

C) the human resources requirement

D) the executive summary

E) the competitive analysis

Answer: D

Explanation: In the final written business plan, the executive summary should appear first, but it should be written last.

Difficulty: 1 Easy

Topic: The Business Plan

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

16) Gerald wants to open his own barbershop in his community. To demonstrate that his new business will be successful and to outline more specific details about his business, he prepares data, charts, and appendices. Which part of the final written business plan does this scenario best describe?

A) a business description

B) an executive summary

C) a competitive analysis

D) a marketing strategy

E) an industry and market analysis

Answer: A

Explanation: This scenario describes a business description, which requires fleshing out the body of the business plan. This section should include material from the revised preliminary proposal with more data, charts, and appendices.

Difficulty: 3 Hard

Topic: The Business Plan

Bloom's: Apply

AACSB: Reflective Thinking

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17) Which part of the final written business plan should include a discussion of the proposed form of the organization and a rationalization of the form chosen?

A) the marketing strategy

B) the executive summary

C) the industry and market analysis

D) the business description

E) the operational issues

Answer: D

Explanation: The business description should include a description of the proposed form of organization, either a partnership or corporation, and the rationalization of the form chosen.

Difficulty: 1 Easy

Topic: The Business Plan

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

18) Which part of the final written business plan requires interpretation of statistics from the U.S. census and from local sources such as the Chamber of Commerce?

A) the competitive analysis

B) the marketing strategy

C) the industry and market analysis

D) the business description

E) the financial projection

Answer: C

Explanation: The industry and market analysis requires interpretation of statistics from the U.S. census as well as from local sources such as the Chamber of Commerce. This is essential to determine an estimate of the projected realistic size of the potential market.

Difficulty: 1 Easy

Topic: The Business Plan

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

19) Glen has worked in the publishing industry for many years, and now, he wants to start his own independent trade publishing company. Which of the following describes something he would do when preparing his industry and market analysis?

A) He would describe the proposed form of organization and the rationalization of the form chosen.

B) He would create an exhaustive list of the primary and secondary competitors in the publishing industry.

C) He would develop a detailed rationale of the perceived differential advantage of his product offering in the publishing industry.

D) He would analyze the financial expenditures necessary to operate in the publishing industry.

E) He would identify the uncontrollable variables of the publishing industry.

Answer: E

Explanation: In his industry and market analysis, Glen would identify the uncontrollable variables within the publishing industry. He would also include the growth rate of the industry and the number of new entrants into this field in his analysis. Further, he would determine an estimate of the proposed realistic size of the potential market.

Difficulty: 3 Hard

Topic: The Business Plan

Bloom's: Apply

AACSB: Reflective Thinking

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20) Which scenario best describes the competitive analysis part of the final written business plan?

A) Margot wants to start her own health foods company, so she develops a list of all the grocery stores, convenience stores, and health-related businesses in the area and determines what draws customers to each store.

B) Carolyn wants to start her own hair salon, so she must determine how she will differentiate her salon from others, promote her salon, and price her treatments and products to attract customers.

C) Malcolm wants to start his own auto mechanic shop, so he analyzes how many other mechanics have opened shops in the area to determine what his potential market size will be.

D) Steven wants to open a custom furniture store, so he must determine the proper location, facility type, leasing options, and supplier needed to successfully operate his business.

E) Melrose wants to open her own clothing store, but first, she must determine what will set her clothing apart and how she will most successfully promote her clothing to get customers into her store.

Answer: A

Explanation: The scenario about Margot's health food store is an example of competitive analysis. This analysis should include an exhaustive list of the primary and secondary competition, along with the competitive advantage of each.

Difficulty: 3 Hard

Topic: The Business Plan

Bloom's: Apply

AACSB: Reflective Thinking

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21) All of the following are variables that need to be addressed as part of the marketing strategy EXCEPT

A) whether to set the price at the market, below market, or above market.

B) how to make or provide the product.

C) whether to promote the product with sales associates, advertising, sales promotions, or publicity.

D) how to best distribute the product.

E) what differentiates the product from others.

Answer: B

Explanation: The marketing strategy involves making decisions about price, promotion, distribution, and product. You must determine whether to price the product at the market, below market, or above market. Additionally, you must decide whether to promote the product with sales associates, advertising, sales promotions, or publicity. You must also determine the best way to distribute the product, providing a rationale for your choice and level of distribution. Lastly, you must determine the perceived differential advantage of your product offering.

Difficulty: 2 Medium

Topic: The Business Plan

Bloom's: Understand

AACSB: Analytical Thinking

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22) Isabel has developed a new line of makeup. She has evaluated the pricing of makeup currently on the market and determined that selling her makeup slightly below market price will help her make more sales. She also decided it would be easier to promote and sell her makeup online and via home makeup parties. Her tagline on her website highlights that her makeup is made using natural ingredients, it is hypoallergenic, and it can be customized for specific customer needs. Since she is an individual creating these products, she is the only makeup provider who allows customers to request custom colors. Which part of the final written business plan does this scenario best describe?

A) the industry and market analysis

B) the executive summary

C) the marketing strategy

D) the business description

E) the competitive analysis

Answer: C

Explanation: This scenario describes the marketing strategy, which requires making decisions regarding price, promotion, distribution, and product.

Difficulty: 3 Hard

Topic: The Business Plan

Bloom's: Apply

AACSB: Reflective Thinking

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23) Barry wants to open a new warehouse to produce children's toys. Which operational item must he consider when opening his warehouse?

A) sources of suppliers

B) the required skills of his personnel

C) his startup costs

D) the level of product distribution

E) the uncontrollable variables within the industry

Answer: A

Explanation: Operational issues relate to how the product will be made or provided. When opening his warehouse, Barry should determine location rationale, facility type, leasing considerations, and sources of suppliers. He also must determine any software or hardware requirements necessary to maintain his operations.

Difficulty: 3 Hard

Topic: The Business Plan

Bloom's: Apply

AACSB: Reflective Thinking

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24) Carrie is starting her own small publishing firm, where she plans to develop apps about healthy food preparation and fitness. One of her primary objectives is to determine the software and hardware requirements that will be necessary to develop these digital products. Which part of the final written business plan does this scenario best describe?

A) the industry and market analysis

B) the executive summary

C) the business description

D) operational issues

E) the human resources requirement

Answer: D

Explanation: This scenario describes operational issues, which involve determining the location rationale, facility type, leasing considerations, and sources of suppliers. Additionally, software and hardware requirements necessary to maintain operations must be determined.

Difficulty: 3 Hard

Topic: The Business Plan

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

25) Jerome has started his own computer repair business. All of the following are things he needs to determine regarding the human resources requirement EXCEPT

A) realistic starting salaries.

B) the number of personnel needed.

C) a description of the personnel needed.

D) realistic required skills.

E) realistic required education.

Answer: A

Explanation: In regards to the human resources requirement, Jerome must determine the number and description of personnel needed, including realistic required education and skills.

Difficulty: 3 Hard

Topic: The Business Plan

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

26) The statement of cash flows must be prepared for the first \_\_\_\_\_\_\_\_ months of the business.

A) 6

B) 3

C) 12

D) 9

E) 18

Answer: C

Explanation: In regards to the financial projections part of the final written business plan, the statement of cash flows must be prepared for the first 12 months of the business.

Difficulty: 1 Easy

Topic: The Business Plan

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

27) Crystal is starting her own acting studio. In regard to financial projections, she must consider all of the following items EXCEPT

A) a breakeven analysis.

B) pricing strategy.

C) startup costs.

D) an estimation of cash inflows and outflows.

E) opening expenses.

Answer: B

Explanation: In regard to financial projections, Crystal must consider her startup costs, opening expenses, and estimation of cash inflows and outflows. She should also include a breakeven analysis and an explanation of her expected financial expenditures.

Difficulty: 3 Hard

Topic: The Business Plan

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

28) Briefly discuss the elements of a business proposal.

Answer: A business proposal should include a business description, a brief marketing plan, and a competitive analysis. The business description consists of an overview of the existing good or service or the good, service, or business you will be starting. This includes developing a mission and a rationale for why you believe this business will be a success. The brief marketing plan should describe your business or product, identify the target market and develop a strategy for appealing to it, justify your proposed location for the business, describe how you will promote the business, provide a rationale for your pricing strategy, and select a name for the business. The competitive analysis should identify the competition as broadly as possible and indicate why this business will be successful given the market.

Difficulty: 2 Medium

Topic: The Business Plan

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

29) Briefly discuss the parts of the final written business plan.

Answer: The final written business plan should start with an executive summary, which appears first but should be written last. Second, it should include a business description that fleshes out the body of the business plan, including material from the revised preliminary proposal with more data, charts, and appendices. Third, it should include an industry and market analysis, which discusses the growth rate of the industry and number of new entrants into the field, identifies uncontrollable variables within the industry, and determines an estimate of the proposed realistic size of the potential market. Fourth, it should include a competitive analysis, listing the primary and secondary competition, along with the competitive advantage of each. Fifth, it should include a marketing strategy, which determines the proper price, promotion, distribution, and product decisions and rationale. Sixth, it should include consideration of operational issues such as location rationale, facility type, leasing considerations, sources of suppliers, and software and hardware requirements. Seventh, it should include information about the human resources requirement such as the number and description of personnel needed, including realistic required education and skills. Eighth, it should include financial projections such as the startup costs, opening expenses, an estimation of cash inflows and outflows, a breakeven analysis, and an explanation of expected expenditures. Lastly, it should include appendices.

Difficulty: 2 Medium

Topic: The Business Plan

Bloom's: Understand

AACSB: Reflective Thinking

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