1

Chapter

Starting Your Small Business

**Chapter Contents**

Learning Objectives 1.2

Chapter Overview 1.2

Brief Chapter Outline 1.2

Chapter Outline and Teaching Notes 1.5

Learning Objectives Revisited 1.32

Key Terms Used in this Chapter 1.33

Notes for Discussion Questions 1.34

Notes for Case Questions 1.35

**Learning objectives**

*After studying the material in this chapter, the student will be able to:*

1. Define what is mean by the term *business*.

2. Name some of the unique contributions of *small businesses.*

3. Explain some of the current problems small businesses face.

4. Discuss some of the current trends challenging entrepreneurs and small businesses owners.

5. Explain why people start small businesses.

6. Describe the characteristics of successful entrepreneurs.

7. Describe where the opportunities are for small businesses.

8. Identify some of the areas of concern for small business owners.

**chapter overview**

Chapter One begins by showing students the unique challenges in owning and managing a small business. This chapter will help students decide if pursuing a career in small business is right for them. They will learn reasons for entering small business; they will discover growing opportunities for everyone.

Companies such as Intel, Microsoft, McDonald’s, Sears and Wal-Mart were all started as small businesses by unknown entrepreneurs such as Andrew Grove, Bill Gates, Ray Kroc. Richard Sears, and Sam Walton. Through imagination, initiative, courage, dedication, hard work, and sometimes just being in the right place at the right time, they turned small businesses into large successful ones. Their success inspires entrepreneurs, who open hundreds of thousands of new businesses each year.

This chapter also helps determine whether a business is to be treated as small or not. An effort is made to distinguish between types of small business: small mom-and-pop operations, and those truly entrepreneurial ventures that can be expected to lead to larger businesses. Unique contributions of small businesses are discussed, and limitations of small businesses are presented for the students’ consideration.

**brief CHAPTER outline**

I. **It’s an Interesting Time to Be Studying Small Business**

A. The Number of Small Businesses Is Growing Rapidly

B. The Public Favors Small Business

C. Interest Is Increasing at High Schools, Colleges, and Universities

D. Trend Is Toward Self-Employment

E. Entrepreneurship Is Attractive to All Ages

II. **Defining Small Business—No Easy Task**

A. What Is Small?

B. Distinguishing Between Entrepreneurial Ventures and Small Businesses

III. **Some Unique Contributions of Small Business**

A. Encourage Innovation and Flexibility

B. Maintain Close Relationships with Customers and Community

C. Keep Larger Firms Competitive

D Provide Employees with Comprehensive Learning Experience

E. Develop Risk Takers

F. Generate New Employment

G. Provide Greater Job Satisfaction

IV. **Some Current Problems Facing Small Businesses**

A. Inadequate Financing

B. Inadequate Management

C. Burdensome Government Regulations and Paperwork

V. **Some Current Trends Challenging Small Business Owners**

A. Exploding Technology

B. Occupation and Industry Shifts

C. Global Challenges

VI. **Why People Start Small Businesses**

A. Satisfy Personal Objectives

B. Achieve Business Objectives

C. Need to Mesh Objectives

VII. **CHARACTERISTICS OF SUCCESSFUL ENTREPRENEURS**

A. Desire Independence

B. Have a Strong Sense of Initiative

C. Are Motivated by Personal and Family Considerations

D. Expect Quick and Concrete Results

E. Are Able to React Quickly

F. Are Dedicated to Their Business

G. Enter Business as Much by Chance as by Design

VIII. **WHAT LEADS TO SUCCESS IN MANAGING A SMALL BUSINESS?**

IX**. DOING AN INTROSPECTIVE PERSONAL ANALYSIS**

X. **WHERE ARE THE OPPORTUNITIES FOR SMALL BUSINESSES?**

A. What Are the Fastest-Growing Industries?

B. Factors Affecting the Future of an Industry or a Business

C. Some Practical Ideas for Small Businesses

XI. **Some Areas of Concern for Small Business Owners**

A. Poorly Planned Growth

B. Threat of Failure

| **Chapter Outline and Teaching Notes** | |
| --- | --- |
| **CHAPTER OPENING PROFILE:**  **Chad Summerlin of LogoLink**  Chad Summerlin found a need and filled it for odd sized air filters that vendors did not carry for individual use. Chad teamed with his Financial Planner, Ronald Allen, to buy a variety of air filters in bulk, and together they built an Internet company, Filters-NOW.com. Filters-Now provides a wide assortment of filters on the web to satisfy consumer needs. Today, Chad and Ron manufacture and sell their own brand of filters, employing 100 people with $18 million in sales. | | |
| I. IT’S AN INTERESTING TIME TO BE STUDYING SMALL BUSINESS  A. **Importance of Entrepreneurs**  1. Many entrepreneurs turned an idea into first a small business then into a large successful one.  2. Small firms are the backbone of the American economy.  3. Small businesses:  a. Employ 53% of the total private nonfarm work force.  b. Contribute 46% of all sales in the USA.  c. Are responsible for 51% of the gross domestic product (GDP.)  d. Produce about two out of every three new jobs each year.  4. Interest in small business is increasing.  B. **The Number of Small Businesses Is Growing Rapidly.**  1. The value of goods and services produced makes the small business sector one of the greatest economic powers in the world.  2. The SBA estimates that there are around 28 million small businesses in the U.S.  3. Small businesses create 75% of the new jobs and employ 50% of the country’s private workforce.  4. They also represent more than 99% of all employers and 97% of exporters.  C. **The Public Favors Small Business.**  1. One survey found that half of the respondents expressed an interest in owning a small business.  2. Many publications are aimed at the small business market, such as *Entrepreneurship,* *Hispanic Business,* and *Fortune Small Business.*  3. Some journals are targeted at specific markets, such as *Family Business,* *Entrepreneurial Women,* and *Your Company.*  D. **Interest Is Increasing at High Schools, Colleges, and Universities.**  1. Courses of study in entrepreneurship are now offered at hundreds of colleges.  2. Students are more interested in entrepreneurship now as a safer career route.  3. Many student organizations, such as the Association of Collegiate Entrepreneurs (ACE) and University Entrepreneurial Associates, have been formed to encourage entrepreneurship.  4. Courses for small business owners are offered at the vast majority of community colleges.  5. Providing training courses is one of the fastest-growing areas in community colleges.  E. **Trend Is Toward Self-Employment.**  1. Small business grew rapidly from the mid-1980s to the mid-1990s, followed a few years later (circa 2006-9)by a recession and under President Obama, the startup and rebuilding of a growing economy  2. A national poll found that 55% of us want to be our own boss. We trust working for ourselves rather than the big companies.  3. Booming Internet and biotechnology industries have attracted record amounts of venture capital financing, and seems to be an area of continuous growth and change.    F. **Entrepreneurship Is Attractive to All**  **Ages.**  1. Entrepreneurship knows no age limits—the text gives an example of Laima Tazmin, a 15-year-old entrepreneur, who owns a web consulting company.  Real World Example 1.1  Entrepreneurship knows no age limits. Megan Crump is an enterprising 7-year-old whose first business was reselling her Halloween candy.    2. Many college students start businesses while in school.  3. Small businesses are attractive to older people, because they offer the most opportunities and flexibility for retirees.  Real World Example 1.3  KOLComm LLC, a medical communications and market research company, was started by Rose Rios, after she lost her job. Rose started the business from home, where she cared for her baby and developed software.  4. Some states, including New York, New Jersey, Oregon, Washington, and Maine, offer the Self-Employment Assistance (SEA) Program. SEA allows persons to launch their new business, while collecting state unemployment checks/money.  5. Some retirees soon discover that they  Are not ready for the rocking chair and search for new careers.  6. Younger entrepreneurs do not fear failure; rather they view it as a learning opportunity.  Real World Example 1.4  The need for a cigarette was the kernel idea for a new venture – Oral Fixation Mints.  6. Forty percent of those who form new businesses already have some management experience.  7. Some retirees soon discover they are not ready for porch sitting, and/or miss people contact, so they search for a new career. |  |
| II. DEFINING SMALL BUSINESS—NO EASY TASK  **Learning Objective 1.**  Define what is meant by the term business.  A. **What Is Small?**  1. To be classified as “small,” a small business must have at least two of the following features:  a. Management is independent.  b. Capital is supplied and ownership is held by an individual or a few individuals.  c. The area of operations is primarily local.  d. The business is small in comparison with larger competitors in the industry.  2. The Small Business Act of 1953 states that “a *small business* is one that is independently owned and operated and is not dominant in its field of operation.”  3. The SBA, for loan purposes, uses different size criteria by industries.  B. **Distinguishing Between Entrepreneurial Ventures and Small Businesses**  1. In an ***entrepreneurial venture***, the principal objectives of the owner are profitability and growth.  a. The business is characterized by innovative strategic practices and/or products.  b. The entrepreneurs usually seek rapid growth, immediate profits, and a quick sellout with large capital gains.  2. A ***small business*** is independently owned and operated and is not dominant in its field.  a. Some owners may not want to grow the business, but prefer to maintain a micro-business, such as an artist, writer, retiree.  b. They do expect normal sales, profits, and growth.  c. Small business owners seek a certain degree of freedom and financial independence.  3. The ***small business owner***establishes a business primarily to further personal goals, including making a profit.  4. The goals of an ***entrepreneur*** include achievement, profit and growth, obtained through innovation and strategic management. |  |
| III. SOME UNIQUE CONTRIBUTIONS OF SMALL BUSINESS  **Learning Objective 2.**  *Name some of the unique contributions of* small businesses*.*  A. **Encourage Innovation and Flexibility**  1. Small businesses are sources of new ideas or services not provided by larger firms.  2. Small firms produce 55% of all innovations and are responsible for most innovations in the computer field.  Real World Example 1.4  The modern computer was invented and developed by small businesspeople, such as John Mauchly, J. Presper Eckert, Steve Jobs, Stephen Wozniak, and Michael Dell.  B. **Maintain Close Relationships with Customers and Community**  1. Small firms can be more individualized than big firms can, attracting customers on bases other than price.  2. An atmosphere of friendliness makes customers feel good about patronizing the business.  3. Main Street programs encourage community revitalization, economic development, historic preservation, and downtown revitalization, and provide more opportunity for small business.  Real World Example 1.5  Chutter’s General Store, started by Mike and Carol Hamilton, has the world’s largest candy counter.  C. **Keep Larger Firms Competitive**  1. Small businesses encourage competition with the introduction of new products and services.  D. **Provide Employees with Comprehensive Learning Experience**  1. Employees in small businesses have a variety of learning experiences and more freedom to make decisions.  2. Small businesses train people to become better leaders and managers.  3. Employees get more responsibility more quickly.  4. Traditionally, self-built men, as our depression era grandfathers, believed that the man at the top was only as good as the man at the bottom, so they must be well-trained from the start.  E. **Develop Risk Takers**  1. Small business owners have relative freedom to succeed or fail.  2. Encouraging out of the box thinking brings fresh ideas.  3. To reduce the risk of failure, planning and study are necessary.  F. **Generate New Employment**  1. Small businesses create job opportunities.  2. Such businesses also serve as a training ground for employees who go on to work for larger businesses.  Real World Example 1.6  Brynn Albretsen, an entrepreneur who will be featured in Chapter 5, suggests you learn as much as you can from those around you and challenge yourself to think outside the box.  G. **Provide Greater Job Satisfaction**  1. Employees in smaller workplaces have higher job satisfaction than those in larger firms.  2. But the greatest satisfaction comes to those who own their own workplaces. |  |
| IV. SOME CURRENT PROBLEMS FACING SMALL BUSINESSES  **Learning Objective 3.**  *Explain some of the current problems small businesses face.*  A. **Special Problems**  1. Small businesses face *special problems* that can result in:  a. limited profitability and growth  b. the decision to voluntarily close the business  c. financial failure  2. Data on the failure rate of small businesses is confusing.  3. The *biggest worries* facing small businesses owners are:  a. current political and economic issues  b. retirement or transition  c. capital or financing issues  d. unexpected growth  e. succession  B. **Inadequate Financing**  1. *The shortage of capital is the greatest problem facing small business owners.*  2. Without adequate funds, business owners aren’t able to acquire facilities, hire employees, produce and market a product.  C. **Inadequate Management**  1. Other problems include limited business knowledge, poor management, inadequate planning, and inexperience.  2. Many owners are reluctant to grow beyond one-person management.  3. Managers of small firms must be generalists, rather than specialists.  4. Because the business’ resources are limited, the owner can’t afford to pay for managerial assistance to prevent bad decisions.  D. **Burdensome Government Regulations and Paperwork**  1. Small businesses are subject to many of the same regulations as large firms.  3. Entrepreneurs often find these regulations complex and contradictory. |  |
| V. SOME CURRENT TRENDS CHALLENGING SMALL BUSINESS OWNERS  **Learning Objective 4.**  Discuss some of the current trends challenging entrepreneurs and small business owners.  A. Small firms must be prepared to cope with trends, which will challenge their performance.  B. **Exploding Technology**  1. All small firms are affected by improvements in communications and computer technology.  2. Exploding technology improves the selection and training of workers and can help overcome their own resistance to change.  3. There are training programs and small business systems available in every possible format available on the internet.  C. **Occupation and Industry Shifts**  1. There is a declining emphasis on traditional “smokestack” industries with a shift toward more people-oriented activities.  2. One shift, ***reinvention***, is the fundamental redesign of a business, often resulting in reduction in size and markets.  3. Reinvention has led to fewer job opportunities for those who are less well trained and educated.  4. Many larger companies have ***reengineered***, redesigning operations, starting from scratch.  5. These activities resulted in ***downsizing***, or (***rightsizing***). Companies reduced the number of employees to increase efficiency.  6. This movement is giving people more responsibility, but they must work harder and are under more pressure.  7. These shifts help smaller firms, as many highly skilled workers and managers leave corporations to join the ranks of small business owners and managers.  D. **Global Challenges**  1. The trend is for small businesses to become more active in global activities. In 2016, small business represented 98% of all U.S. Exports.  2. Up to one-half of all today’s college graduates will work in some type of global activity in the future.  3. One result of the global challenge is the number of large and small U.S. businesses that are foreign owned.  Real World Example 1.7  Many “American” brands were owned by foreign companies, such as RCA and GE brands (owned by a French company.) |  |
| VI. WHY PEOPLE START SMALL BUSINESSES  **Learning Objective 5.**  *Explain why people start small businesses.*  A. There are as many reasons for starting small businesses, as there are small business owners.  B. **Satisfy Personal Objectives**  1. Owning a small business tends to satisfy most of our work goals.  a. One study found that the best things about owning a small business are independence, control, and satisfaction.  b. The primary objectives of small business owners are to:  (1) achieve independence  (2) obtain additional income  (3) help their families  (4) provide products not available elsewhere  c. The *personal objectives of owners* of small businesses differ from those of managers of larger firms.  d. The personal objectives of small business owners tend to be *achievement oriented.*  *e.* The objectives of managers at large firms tend to be *power and prestige oriented.*  2. *Achieve independence*  a. The owner’s primary motive in owning a business is usually to achieve independence.  b. Small business owners tend to want autonomy to exercise their initiative and ambition.  c. This freedom often results in innovations and leads to greater flexibility.  3. *Obtain additional income*  a. The need for income varies among people.  b. Owning a business can have tax advantages.  c. Not all small business owners make, or intend to make, a lot of money, such as a person opening a business to give him something to do with his time as well as to help the local community.  d. A person may start a small business after being unable to find employment elsewhere.  e. A parent may need to work from home so as to not spend major income on daycare.  4. *Help their families*  a. Small business owners are motivated as much by personal and family considerations as by the desire for profit.  5. *Provide products not available elsewhere*  a. Most American economic development is the result of innovations born in small firms.  b. Small firms produce 2½ times as many new ideas and products as large firms do.  c. Many breakthroughs, such as the automobile, airplane, helicopter, heart pacemaker, and zipper resulted from the creativity of small companies.  Real World Example 1.8  One entrepreneur identified a need—basic funeral services—and started a successful business. Lloyd Mandel opened the first “funeral store” in an Illinois mall.  C. **Achieve Business Objectives**  1. An important business function is setting ***objectives***, which are the goals toward which the business’s activities are directed.  2. Growth depends on attaining both profit *and* social objectives, which are not necessarily incompatible.  3. *Service objective*  a. The objective of a business is to produce and sell goods or services at a cost that will ensure a fair price to the consumer and adequate profits for the owners.  b. A small business must set *service* as the primary objective—then seek *profit* as a natural consequence.  4. *Profit objective*  a.***Profit***is the revenue received by a business in excess of the expenses paid.  b. The ***profit motive*** is expecting to make a profit as the reward for taking the risk of starting and running a business.  c. Goods or services must be produced at a cost:  (1) low enough that the firm makes a profit  (2) while charging customers a price they are willing and able to pay  d. Profits are the reward for accepting business risks and performing an economic service.  5. *Social objective*  a. Successful small businesses must have ***social objectives***, which are goals regarding assisting groups in the community and protecting the environment.  b. This has become crucial in this era of Climate Change awareness. Setting up green businesses and recycling helps reduce our carbon footprint.  c. Even small firms have a responsibility to protect the interests of all parties as well as to make a profit.  d. Supporting some phase of the community is part of a circle of support for your business.  6. Small firm owners should select a *growth objective* based on personal goals.  D. **Need to Mesh Objectives**  1. Personal and business objectives can be integrated in small business.  2. The chances of success are increased when the objectives of the business are meshed with owner’s personal objectives. |  |
| VII. CHARACTERISTICS OF SUCCESSFUL ENTREPRENEURS  **Learning Objective 6.**  *Describe the characteristics of successful entrepreneurs.*  A. The abilities and personal characteristics of the owner influence the success of a small company.  1. A recent study found that almost one-third of all U.S. millionaires are entrepreneurs or business owners.  2. Another characteristic is *persistence*—16% of new business owners have been in business before.  3. In entrepreneurship, the U.S. ranks fourth behind New Zealand, Australia, and Canada.  4. Successful small business owners tend to share characteristics, such as a strong work ethic.  B. **Desire Independence**  1. People who start small businesses seek independence and want to be free of outside control.  C. **Have a Strong Sense of Initiative**  1. They desire to use their ideas, abilities, and aspirations to the greatest degree possible.  2. They are able to conceive, plan, and carry ideas for a new product to some successful conclusion.  3. Also, they are willing to work long, hard hours to reach their goals.  D. **Are Motivated by Personal and Family Considerations**  1. Small business owners often start and operate their businesses to help their family.  2. There is now a trend toward children helping their parents by putting them on the payroll.  E. **Expect Quick and Concrete Results**  1. Small business owners expect quick and concrete results from their investment of time and capital.  2. They seek a quick return on their capital and become impatient and discouraged when the results are slow in coming.  3. Many new businesses, especially those in the food industry, experience what is known as the “Hollywood Effect” whereby the business is a hit right as it opens, then slows and gradually builds to success in around three years.  F. **Are Able to React Quickly**  1. One advantage small business owners have is the ability to react more quickly to changes inside or outside the company.  2. Because they are small, small businesses are vulnerable to technological and environmental changes.  G. **Are Dedicated to Their Business**  1. With so much of their time, money, and energy devoted to the business, small business owners tend to have more zeal and devotion than managers of big companies.  H. **Enter Business as Much by Chance**  **as by Design**  1. They ask for management training and development assistance.  2. These owners differ from those who attend college with the ambition to become professional managers.  Real World Example 1.9  Faced with low demand for his denim tents, Levi Strauss started using the fabric to make sturdy jeans for miners. | . |
| VIII. WHAT LEADS TO SUCCESS IN MANAGING A SMALL BUSINESS?  A. Serving an adequate and well-defined market  B. Acquiring sufficient capital  C. Recruiting and using human resources effectively  D. Taking advantage of seminars and all available training for yourself and your employees.  E. Obtaining and using timely information  F. Coping effectively with government regulations  G. Having expertise in the field  H. Being flexible |  |
| IX. DOING AN INTROSPECTIVE PERSONAL ANALYSIS  A. A personal evaluation can help determine whether you have the combination of qualities needed to succeed.  B.Analyzing your values  C. Analyzing your mental abilities  D. Analyzing your attitudes |  |
| X. WHERE ARE THE OPPORTUNITIES FOR SMALL BUSINESSES?  **Learning Objective 7.**  *Describe where the opportunities are for small businesses.*  A. **What Are the Fastest-Growing Industries?**  1. Most of the growing industries are dominated by small private companies.  2. Professional and related occupations will account for 10.5 million job openings by 2022, followed by services at 7.6 million. Healthcare is the fastest growing occupation. By 2022, there are expected to be 10.5 million workers in this field, not including physicians.  B. **Factors Affecting the Future of an Industry or a Business**  1. Changes can cause slow-growing industries to speed up or fast-growing ones to slow down.  2. One study found that the more professional technicians or knowledge workers an industry has, the greater the chance it will create new jobs.  3. ***High-knowledge industries*** are those in which 40% or more of human resources are professionals, technicians, or other “knowledge workers.”  4. A change that provides an opportunity for one industry or business may pose a threat to others.  C. **Some Practical Ideas for Small Businesses**  1. Around 71% of future employment in the fastest-growing industries will likely come from small businesses.  2. Potential areas for tomorrow’s businesses include:  a. Career counseling  b. Catering  c. Computers  d. Day care, educational services and products  e. Financial planning  f. Home health care  g. Marketing, promotion, and public relations  h. Senior fitness and recreation  i. Specialized delivery services  j. Technology  k. Internet storage  l. Expanding medical research  Real World Example 1.10  Grubluck.com is a specialized delivery service for restaurants.  Cuisine Express features specialized delivery of restaurant meals. Customers place the order through a Cuisine Express’s operator or the Internet. A driver picks up the meal, delivers it, and collects payment. |  |
| XI. SOME AREAS OF CONCERN FOR SMALL BUSINESS OWNERS  **Learning Objective 8.**  *Identify some of the areas of concern for small business owners.*  A. The success of small firms tends to be limited by such factors as:  1. inadequate management  2. shortages of capital  3. government regulation and paperwork  4. inadequate record keeping  B. **Poorly Planned Growth**  1. Poorly planned growth appears to be a built-in obstacle facing many small businesses.  a. If the owners are incapable, their businesses may flounder and eventually fail.  b. Even if the owners are efficient and capable, their organizations may grow in a poorly planned way. (Always set goals and realistic steps to reach them.)  c. As small businesses succeed, their owners feel like prisoners of long hours and hard work.(If you provide as much training as possible, a good working environment, and maintain a pleasant relationship with your staff, you should be able to delegate a lot of your load.)  d. Core symptoms of “trapped owner” syndrome:  (1) despair over the loss of closeness in important personal relationships  (2) unshakable anxiety despite accomplishments  (3) anger toward family, employees, and customers  (4) frustration that the lack of significant current progress is preventing forward movement  (5) the paradox itself: you own your business, yet you don’t enjoy it  (Learn to ask for help, in business and in life. It does not make you less of a person to do so, it makes you stronger.)  2. *Loss of independence or control*  a. With growth, owners must please more people, including employees, customers, and the public.  b. However, many creative entrepreneurs are poor managers.  c. If the firm becomes large enough to require outside capital, the owner may lose control over the company.  3. *Typical growth pattern*  a. During *Stage 1*, owners manage the business and do all the work.  b. In *Stage 2*, the owners still manage the company but hire employees to help.  c. In *Stage 3*, the owners hire managers to run the firms.  d. Often owners must give managers a financial interest in the firm in order to hold them.  e. The business then may face the same problems as a large business does.  C. **Threat of Failure**  1. A ***discontinuance*** is a voluntary decision to terminate a business, caused by factors such as health problems.  2. A***failure*** results from an inability to succeed in running a business.  a. ***Formal failures*** are failures ending in court with some kind of loss to the creditors.  b. In ***personal (informal) failures***, the owner who cannot succeed voluntarily terminates the business.  c. Personal failures are more common than formal failures.  3. Studies of the behavior of people in small business show that *failure often results from:*  a. too much left to chance (always have a plan B.)  b. too many decisions were based on hunch or intuition (back “gut” up with facts)  c. crucial obstacles went unnoticed for too long (Be observant.)  d. the amount of time and effort demanded were not recognized and planned for (Understand that, in the beginning, the business is your life.)  e. the amount of capital needed was either not estimated or grossly underestimated (Study business plans. Take time to go over every tiny aspect of finances.)  4. *Start-up failures* are usually caused by:  a. lack of managerial assistance(train, train, train)  b. lack of financial backing(First  priority  c. poor location (You have heard  this phrase a million times: Loca-  tion, location, location.” Know  the property before you buy.  Know the area. Know the demo-  Graphics.)  d. unexpected growth (This is where  Plan B comes in.)  e. communication skills (Here again,  Train. Meet, greet, and network.”  5. Locating in a business incubator can reduce the risks of failure.  a. ***Business incubators*** nurture young firms and help them to survive and grow during the startup period when they are most vulnerable.  b. Business incubators provide management assistance, share office services and access to equipment, all under one roof.  c. The typical incubator program lasts 2-3 years, and about 30% of the businesses “graduate.”  d. Incubator facts:  (1) Today, there are about 1,900 incubators in 60 nations; 60% are self-sufficient.  (2) Incubators now have about an 80% success rate.  e. *An example:* the Center for Entrepreneurial Excellence, which operates in a former school building.  6. The latest available information seems to indicate that failure rates are decreasing.  7. Many hobbyists, mom-and-pop ventures, and other small undertakings open and close every day without any documentation for tracking their success or failure. |  |
|  |  |

**learning objectives revisited**

*1. Define what is meant the term* business*.*

● The definition of small business varies widely.

● In an *entrepreneurial venture,* the principal objectives of the entrepreneur are profitability and growth.

● A *small business* is independently owned and operated and is not dominant in its field.

● A *small business owner* establishes a business to further personal goals; an *entrepreneur* seeks achievement, profit, and growth, achieved through innovation and strategic management.

2. Name some of the unique contributions of small businesses.

● Encourage innovation and flexibility

● Maintain close relationships with customers and community

● Keep larger firms competitive

● Provide employees with comprehensive learning experience

● Develop risk takers

● Generate new employment

● Provide greater job satisfaction

3. Explain some of the current problems small businesses face.

● Inadequate financing—the greatest problem facing small business owners is shortage of capital

● Inadequate management, including limited business knowledge, poor management, inadequate planning, and inexperience

● Burdensome government regulation and paperwork

4. Discuss some of the current trends challenging entrepreneurs and small business owners.

● Exploding technology, including advances in communication and computer technology.

● Coping with occupational and industry shifts, including shifts such as reinvention, reengineering, and downsizing.

● The opportunities and challenges of global operations.

5. Explain why people start small businesses.

● To satisfy personal objectives, such as achieving independence, obtaining additional income, helping their families, and providing products not available elsewhere.

● To achieve business objectives, including service, profit, social, and growth objectives.

● Personal and business objectives can be integrated in a small business.

6. Describe the characteristics of successful entrepreneurs.

● Desire independence.

● Have a strong sense of initiative.

● Are motivated by personal and family considerations.

● Expect quick and concrete results.

● Are able to react quickly to change.

● Are dedicated to their business.

● Enter business as much by chance as by design.

7. Describe where the opportunities are for small business.

● The most new small businesses will be created in the service industry.

● The more knowledge industry workers have, the greater the chance it will create new jobs.

8. Identify some areas of concern for small business owners.

● Poorly planned growth can cause a business to fail.

● Loss of independence or control can result.

● There is always the possibility of voluntary or involuntary failure.

● Locating in a business incubator can reduce the risks of failure.

**key terms used in this chapter**

***Business incubators*** nurture young firms and help them to survive and grow during the startup period when they are most vulnerable.

***Discontinuance*** is a voluntary decision to terminate a business.

***Downsizing*** (***rightsizing***) is reducing the number of employees to increase efficiency.

An ***entrepreneur*** seeks to include achievement, profit, and growth through innovation and strategic management.

In an ***entrepreneurial venture***, the principal objectives of the owner are profitability and growth.

A ***failure*** results from an inability to succeed in running a business.

***Formal failures*** are failures ending in court with loss to the creditors.

***High-knowledge industries*** are those in which 40% or more of human resources are professionals, technicians, or other “knowledge workers.”

In ***personal (informal) failures***, the owner who cannot succeed voluntarily, terminates the business.

***Micro-Business*** has only one to four employees.

***Objectives*** are the goals toward which the business’s activities are directed.

***Profit*** is the revenue received by a business in excess of the expenses paid.

The ***profit motive*** is expecting to make a profit as the reward for taking the risk of starting and running a business.

***Reengineering*** is theredesign of operations, starting from scratch.

***Reinvention*** is the fundamental redesign of a business, often resulting in reduction in size and markets.

A ***small business*** is independently owned and operated and is not dominant in its field.

A ***small business owner***establishes a business primarily to further personal goals, including making a profit.

***Social objectives*** are goals regarding assisting groups in the community and protecting the environment.

**notes for discussion questions**

1. Do you agree that this is an interesting time to be studying business? Why are you doing so?

This will be answered by each student individually. Many will mention the increasing influence of the Internet. This question could also be a good method of examining the students’ future goals and their perceptions of small business.

2. All of us have personal experiences with small business—as an owner, an employee, a friend, or a relative of an owner, or in other relationships. Explain one or more such experience(s) you have recently had.

Again, this question will have numerous responses. Are these experiences positive or negative? Are the students more or less likely to pursue a small business career as a result of these experiences?

3. What comes to your mind when you think of a small business? How does your concept differ from the definition given in this chapter?

Responses will differ based on the students’ individual experiences.

4. Distinguish between a small business and an entrepreneurial venture. If you were to start your own business, which would you wish it to be? Why?

A *small business* is any business that is independently owned and operated, is not dominant in its field, and does not engage in many new or innovative practices. An *entrepreneurial venture* is one in which the principal objectives of the entrepreneur are profitability and growth. Students will have differing opinions as to which type is more attractive.

5. How do you explain the growing interest young people have in small business? Relate this to your personal small business experience.

Because small businesses employ more than half of the U.S. work force, this will probably be the first job experience of most students. In addition, small firms are more likely to hire young, inexperienced workers than larger firms would be.

6. What are the unique contributions of small businesses? Give examples of each from your own experience owning or working in a small business or from small businesses that you patronize.

Small firms (1) encourage innovation and flexibility, (2) maintain close relationships with customers and the community, (3) keep larger firms competitive, (4) provide employees with comprehensive learning experiences, (5) develop risk takers, (6) generate employment, and (7) provide greater employee job satisfaction.

7. What are some of the problems facing small businesses? Again, give examples from your experience.

Small businesses face the problems of inadequate financing, inadequate management, and burdensome government regulations and paperwork. Other problems include recession/current economic issues, retirement or transition, capital or financing issues, unexpected growth, and succession.

8. Discuss the four personal objectives that people seek when starting a new business.

The four personal objectives are: (1) to achieve independence, (2) to obtain additional income, (3) to help their families, and (4) to provide products not available elsewhere.

9. Explain the interrelationship between the “service” and “profit” objectives.

The *service objective* must be achieved if the *profit objective* is to be attained. Yet profits must be made if the business is to continue to reach the service objective. A person who aspires to operate a small business must set *service* as the primary objective—but with *profit* as a natural consequence.

10. How does success cause problems for some small businesses? Can you give examples from your experience or suggest ways to avoid the problems of growth?

Unplanned growth can be a problem for small business owners. If the owners are successful, they risk losing their independence and control. There are more people to please, and hired managers exercise the authority they previously held alone. Poorly planned growth and the failure to foresee the stages of growth a typical company may go through can also pose a real problem. Also, many creative entrepreneurs are poor managers and can lose control of the company when it grows.

*11. What would be you reason for opening a small business, at this point in time?*

**notes for case questions**

**Case 1.1: The Big Wash**

1. Evaluate Henry Gibson’s approach to starting a new business.

Gibson’s group involved the community in financing and operation. Following the well-known description of business formation “find a need and fill it,” BIG enterprises developed a business plan based on a community need. They also shared profit with community members.

2. Could there have been another source of funding? Explain.

Other sources of funding will be discussed in Chapter 7. Possible sources include SBA loans, funding through local SBICs, and partnerships with venture capitalists.

3. How do you explain the fact that Big Wash has not been robbed?

The public supports entrepreneurs, especially when the owners are known and respected. Because the Big Wash provides employment and fills a need in the community, it is not surprising that it has not been targeted for robbery.

**CASE 1.2: The American Dream**

1. Do you believe in the American Dream? Why? Or why not?

This question will be answered individually by each student.

2. What would be your idea of the American Dream?

Answer individually or use in group discussion of same.

3. Do you think ethnicity is still a problem for small business owners in the mainstream? Why or why not?

This should start an interesting discussion. Do employees and customers consider the ethnicity of a business owner? Is this a positive or a negative decision factor?