

The Challenge

Chapter 1

Small Business: An Overview

Facts about Small Businesses

- Small Businesses:
 - Represent more than 99.7% of all employers.
 - Employ more than half of all private sector employees.
 - Employ 41% of high-tech employees.
 - Create 60 to 80% of net new jobs annually.
 - Represent 97% of all exporters of goods.
 - Produce 13 to 14 times more patents per employee than large firms.
 - Create more than 50% of private GDP.
 - Pay 45% of total U.S. private payroll.

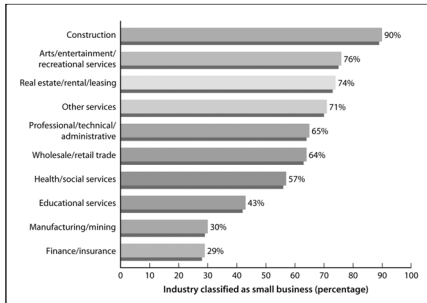
2 Source: Hatten, Small Business Management, 4th Edition

What Is a Small Business

- Definition of a Small Business Used in This Course
 - Independently owned, operated, and financed
 - Has fewer than 100 employees
 - Has relatively little impact on its industry
- How to Define Small Business
 - Number of employees
 - Sales revenue
 - Total value of assets
 - Value of owners' equity

3 Source: Hatten, Small Business Management, 4th Edition

Figure 1.2: Small Business Employment Share of NAICS Industries



Source: Hatten, Small Business Management, Publishers—Small Business Share of NAICS Industries, Research Summary #218, 4th Edition

Small Businesses in the U.S. Economy

- Early 1800s
 - Cottage firms and artisan studios
 - Agricultural economy
- Late 1800s: Industrial Revolution
 - Economies of scale: mass production and assembly line factories lower unit costs.
- 1950s-1960s
 - Paradigm shifts to the **marketing concept**.
 - Service sector grows as consumer incomes and spending increase, favoring small business growth.

Source: Hatten, Small Business Management, 4th Edition

Recent Growth Trends

- Early 1970s
 - Large firm profitability decreases as costs rise.
 - Entrepreneurs establish small businesses in new industries.
 - Other startups begin to outcompete older, larger competitors.
- 1980s-1990s to Present
 - “Merger mania” is financed by junk bonds.
 - **Downsizing** and outsourcing creates opportunities for small business entrepreneurs.
 - Information technology lowers capital-based entry barriers and fosters telecommuting.

Source: Hatten, Small Business Management, 4th Edition

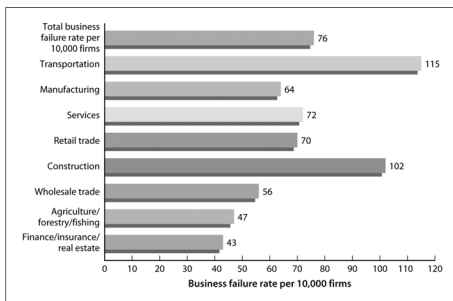
Recent Growth Trends

- Increased Business Startups
 - Small business growth (startups) in last 30 years
 - 1970 - 264,000
 - 1980 - 532,000
 - 1990 - 585,000
 - 2000 - 574,000
 - 2005 - 671,800
- Increasing Interest at Colleges and Universities
 - 1971 - 16 schools offer entrepreneurship courses
 - 2005 - 1600 schools offer entrepreneurship courses

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Source: Hatten, Small Business Management, 4th Edition

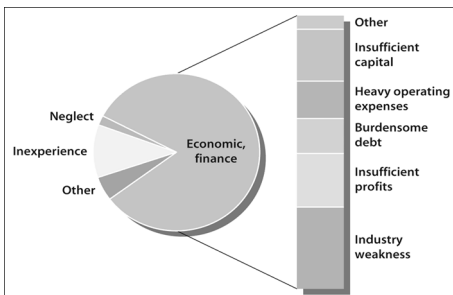
Figure 1.3: Business Failure Rate per 10,000 Firms



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Source: Hatten, Small Business Management, 4th Edition. Business Failures by Industry, 1990 to 1998. Statistical Abstract of the United States (Washington, DC: U.S. Government Printing Office, 2001).

Figure 1.4: The Causes of Business Failures Are Many and Complex



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Source: Dun & Bradstreet Corporation, Business Failure Report. NFIB Foundation VISA Business Card Primer, as shown in William J. Dennis, Jr., A Small Business Failure Report. Small Business Management, 4th Edition. Reprinted by permission of the National Federation of Independent Business.

Understanding the Risks of Small Business Ownership (cont'd)

- Common Mistakes That Invite Business Failure
 - Planning: failing to look toward the future
 - Understanding what is required: commitment and hard work
 - Trying to do it all: not hiring enough employees or not using employees effectively
 - Financial myopia: inaccurately estimating cash flows and capital requirements

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Source: Hatten, Small Business Management, 4th Edition

Table 1.2: U.S. Business Startups, Closures, and Bankruptcies

	New	Closures	Bankruptcies
2005	671,800	544,800	39,201
2003	612,296	540,658	35,037
2000	574,300	542,831	35,472
1995	594,369	497,246	50,516
1990	584,892	531,892	63,912

SOURCE: Small Business Administration, Office of Advocacy, "Frequently Asked Questions," June 2006, www.sba.gov/advo

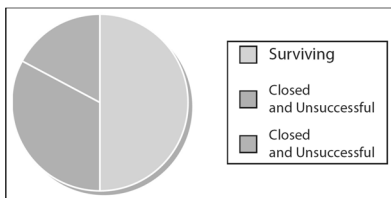
Myth: 90% of all new businesses fail within one year.

Truth: Only about 18% of all businesses are forced to close their doors with a loss to creditors; the rest either close voluntarily or are still in business.

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Source: Hatten, Small Business Management, 4th Edition

Figure 1.5: Analysis of Business Closure



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Source: Hatten, Small Business Management, 4th Edition
