

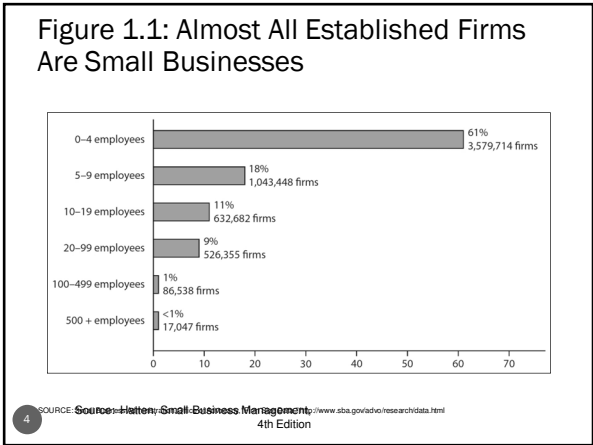
# The Challenge

## 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.
- 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
- Source: Hatten, Small Business Management, 4th Edition



- ### Small Business and the SBA
- SBA Size Board's Factors for Business Size Standards:
    - Industry structure analysis
    - Degree of competition
    - Average firm size
    - Startup cost
    - Entry barriers, distribution of sales, and employment by firm size
    - Effects of different size standard levels on objectives of SBA programs
    - Comments from the public on notices of proposed rulemaking
- Source: Hatten, Small Business Management, 4th Edition

### Table 1.1: Small Business Size Standards

**Range of Size Standards by Industry**

**Construction:** General building and heavy construction contractors have a size standard of \$31 million in average annual receipts. Special trade construction contractors have a size standard of \$5 million.

**Manufacturing:** For approximately 75 percent of the manufacturing industries, the size standard is 500 employees. A small number have a 1,500-employee size standard, and the balance have a size standard of either 750 or 1,000 employees.

**Mining:** All mining industries, except mining services, have a size standard of 500 employees.

**Retail Trade:** Most retail trade industries have a size standard of \$6.5 million in average annual receipts. A few, such as grocery stores, department stores, motor vehicle dealers, and electrical appliance dealers, have higher size standards. None exceed \$26.5 million in annual receipts.

**Services:** For the service industries, the most common size standard is 85.5 million in average annual receipts. Computer programming, data processing, and systems design have a size standard of \$23 million. Engineering and architectural services have different size standards, as do a few other service industries. The highest annual receipts size standard in any service industry is \$23 million. Research and development and environmental remediation services are the only service industries with size standards stated in number of employees.

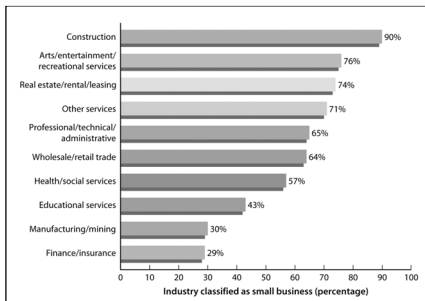
**Wholesale Trade:** For all wholesale trade industries, a size standard of 100 employees is applicable for loans and other financial programs. When acting as a dealer on federal contracts set aside for small business or issued under the 8(a) program, the size standard is 500 employees, and the firm must deliver the product of a small domestic manufacturer.

**Other Industries:** Other industry divisions include agriculture, transportation, communications, electric, gas, and sanitary services; finance, insurance, and real estate. Because of wide variations in the structure of the industries in these divisions, there is no common pattern of size standards. For specific size standards, refer to the size regulations in 13 CFR 121.201 or the table of small-business size standards.

Source: Small Business Administration, "Guide to SBA's Definitions of Small Business—Summary of Size Standards by Industry Division," [www.sba.gov/radix/research/data.html](http://www.sba.gov/radix/research/data.html)

Source: Hatten, Small Business Management, 4th Edition

Figure 1.2: Small Business Employment Share of NAICS Industries



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

### 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.

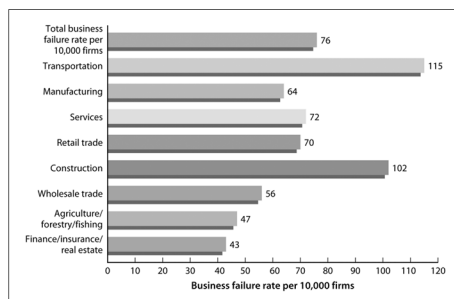
Source: Hatten, Small Business Management, 4th Edition

### 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

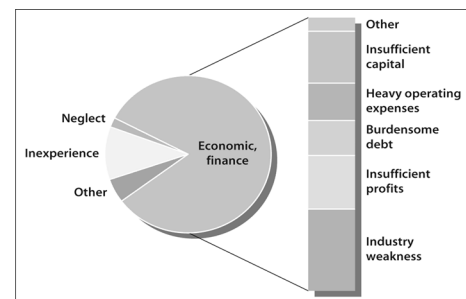
Source: Hatten, Small Business Management, 4th Edition

Figure 1.3: Business Failure Rate per 10,000 Firms



Source: Hatten, Small Business Management, 4th Edition, Publications—Business Failures by Industry: 1990 to 1998, Statistical Abstract of the United States (Washington, DC: U.S. Government Printing Office, 2001), 44.

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



Source: Dun & Bradstreet Corporation, Business Failure Report, NFIB Foundation VISA Business Card Primer, as shown in William J. Dennis, Jr., A Small Business Owner's Handbook (New York: Entrepreneur Press, 1993), 23. 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/adv

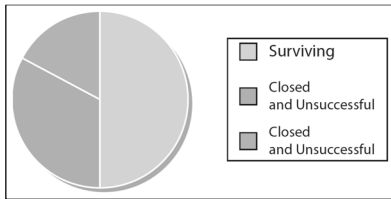
Myth: 90% of all new businesses fail within one year.

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