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Achieving Success in the Small Business

Source: *Entrepreneurial Small Business*, Katz & Green, 2e
McGraw-Hill/Irwin

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Types of Firms

Firm Type	Percentage
Lifestyle/Part-time Firms (Less than \$25,000)	53%
High-Performing Small Businesses (\$100,000 to \$999,999)	20%
Traditional Small Business (\$25,000 to \$99,999)	22%
High-Growth Ventures (\$1,000,000 and up)	5%

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The Hierarchy of Business Outcomes

Outcome	Typical Technique
Become Rich from the Firm	Business Sale or Family Business Succession
Get a Continuing Income from the Firm	Business Succession
Leave the Firm with a Nest Egg	Sell Off
Leave the Firm a Little Better Than When I Started	Pass Off
Leave the Firm with No Debts	Walkaway
Leave the Firm with Debts I Can Quickly Pay Off	Workout
Leave the Firm with Debts I Can Eventually Pay Off	Bankruptcy
Leave the Firm in Bankruptcy	Bankruptcy
Leave the Firm and Myself in Bankruptcy	Bankruptcy

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Business life cycle

- Several models, with same general ideas:
 - Multiple stages
 - Key issues, lessons, and actions at each stage
 - Level of risk business faces changes from stage to stage

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- Emergence:** person thinks and takes action towards starting a firm
 - Only 7% actually took steps in 2002

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- Existence:** having the business in operation, but not yet stable
 - Risk is high
 - Owners lack key information
- Success:** develop information, skills, and routines to grow the business' profits
 - This is a stage that lasts a long time

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4. Resource maturity: stable level of sales and profits

- Functional areas, the market, and the products or services are being dealt with consistently and efficiently
- Challenge is to avoid complacency

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• 4 key components to staving off customer complacency:

- **Recency:** be among the people your customers have seen in the last few days
- **Frequency:** stay in touch with customers on a frequent basis (visits, phone calls, emails, etc.)
- **Potency:** be remembered for the right reasons
- **Recommendation:** making clear recommendations to show your customers you care about them

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5. Takeoff: a period of exceptional growth

- Might come from landing an unexpectedly **gigantic contract**, **expanding** into multiple locations, or just being in the **right place at the right time**
- Most small businesses never go through the take-off phase

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Example

How Quickly Should I Grow?

- "How Quickly" you attempt to grow your business is called your "pace" of growth
- Growth occurs when your business is experiencing permanent increases in profit as a direct result of measurable and sustainable increases in sales volume
- Growth is best achieved by matching the timing and pace of your business's growth initiatives to market demand

<http://www.entrepreneur.com/growyourbusiness/businessstrategies/article50152.html>

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Growth Strategies

- **High-growth ventures:** aim to achieve growth rates of 25% or more and sales of \$1,000,000+
- **High-performing small businesses:** level off after success stage, sales between \$100,000-\$1,000,000, grow at rates of 5-15% a year

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Growth Strategies (cont.)

- **Traditional small business:** smallest full-time business, schedules defined by customer, sales between \$25,000-\$100,000
- **Lifestyle or part-time firms:** sales of \$25,000 a year or less, start and stay very small
 - 53% of all small businesses

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- **Sales Growth:** comes from several ways
 - Increasing sales to existing steady customers
 - Make occasional customers into steady customers
 - Expand areas where you have small customer base
- **Technological growth:** can take two forms
 - Use technology to improve efficiencies and profits
 - Use it to create new products or services

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Closing the Small Business

- Every year, nearly 4 million go through changes in ownership and existence
- **Harvest:** get maximum value they can for the business
- **Initial public offering (IPO):** selling stock to public on major stock exchange

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Example

The ABCs of IPO's

- Company begins the process by retaining a law firm to assist in producing a detailed firm disclosure
- Company will interview various investment banks and then select one (or more) to handle the underwriting of the IPO
- On the IPO date, the company and its team do their last-minute edits and negotiate the final offer price, and the last version of the prospectus is filed with the SEC, usually within the half hour prior to the opening of trading on the exchange.

<http://www.entrepreneur.com/money/financing/posanddos/articles/2012.html>

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- **Transfers:** ownership is moved from one person or group to another
 - 2003: around 860,000 firms were transferred within the family
 - Nearly 1 million business sales took place
 - Occur only among the largest small businesses

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- **Transfers: cont.**
 - One key goal is minimizing the **tax effects** of the transfer
 - Business can lose as much as **half** of its value to the government
 - **Pass off:** owner gives the firm to someone as a gift, without compensation; 38% use this
 - **Sell off:** everything is sold to another business, with proceeds paying off remaining debts

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- **Terminations:** more likely for young firms
 - 1.8 million per year
 - Three types of terminations:
 - Walkaways
 - Workouts
 - Bankruptcies

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The Not-So-Secret Secrets of Success

- **Critical Success Factors (CSF):** processes, benchmarks, or components of the business that are essential for the business to be profitable and competitive
 - Come from sources external to entrepreneurs
 - Fall into two categories
 - Outside help
 - Entrepreneurial experience

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Entrepreneurial Experience

- **Being incorporated:** a lawyer is likely to give small business owners advice and help them avoid some of the major pitfalls of a new firm
- **Employees:** get more done, appeal to a larger market, source of expertise

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Entrepreneurial Experience

- **Extreme start-up capital:** business starting with no start-up capital, and those starting with more than \$50,000, are among those most likely to survive long term
- **Protectable intellectual property:** patents or trademarks

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Entrepreneurial Experience

- **Brand name affiliations or partners:** have been checked out and found to be acceptable
- **Optimal strategies:** picking and starting a business in a growing industry
- **Presales:** pilot test through contracts, orders, or letters of interest

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Measuring Success with Four Bottom Lines

- **The Firm:**
 - Define the level of profit that they seek
 - Leadership of the industry
 - Employee satisfaction and well-being

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Community: how the business relates to the community

- Community impact
- Building trust
- Promoting a positive culture
- Enhancing flexibility
- Fostering innovation

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- **Family:** spend the time with your family
 - Leave personal time to make the transition from work to family
 - Clear your work list and your mind
- **Yourself:** personal returns
 - Variety of expectations, dreams, and goals
 - Keeping the dreams alive

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Area	Goal	Metric	Achievement Level
Yourself	Feel in control of my life	Personal opinion	Achieved
Family	Have time for spouse and children	Their opinions	Spouse—Not Achieved Child (Ann)—Achieved Child (Roger)—Not Achieved
Firm	Profits or take outs	Practical income of \$75,000 in cash or services a year	\$71,000
Community	Satisfied employee Support local charities	Her opinion 5% of sales minimum	"Generally yes" 4.88%

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Summary

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