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Small Business: Its Opportunities and Rewards

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

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- **Small Business:** involves 1-50 people and has its owner managing the business on a day-to-day basis
 - Over a million new businesses per year in U.S.
- **Entrepreneur:** a person who owns or starts an organization, such as a business

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- **Small Business Administration:** a part of U.S. government which provides support and advocacy for small business
- **SBA reports on new business survival rates after four years:**
 - With employees: about 2/3 survive
 - Owner-only: about 1/2 survive

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- **Small Business Development Center:** offices co-sponsored by states and the federal government that offer free or low-cost help to existing or potential small business
 - More than 81% of SBDC clients were still in operation after five years

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- **Incubators:** a facility which offers subsidized space and business advice to companies in their earliest stages of operation
 - More than 87% of firms receiving help from incubators were still in operation after four years
- **Small business knowledge means small business success!**

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Defining a Small Business:

- **Small and Medium Enterprise (SME):** international term for small businesses
 - Small enterprises: 1-50 people
 - Medium enterprises: 51-500 people

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- **Independent Small Business:** a business owned by an individual or small group
- **Owner-manager:** individual who owns and runs a business
- **Absentee owner:** profits from business, but not involved in daily activities

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Small Business Owners and Entrepreneurs:

- Entrepreneurial businesses are characterized by **novelty** in their products, services, or business models
- Small businesses are **imitative**, providing only minor variations on an established model
- **Self-employed:** working for yourself
 - About 16.3 million self-employed people in 2006

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Small Business Owners and Entrepreneurs:

- **Entrepreneur:** anyone who owns a business
- Groups within population of entrepreneurs:
 - **Founders:** people who create or start new businesses
 - **Franchise:** prepackaged business bought, rented, or leased from a company called a **franchisor**
 - **Buyers:** people who purchase and existing business
 - **Heir:** person who becomes an owner through inheriting or being given a stake in a family business

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Small Business vs. High-Growth Ventures

	Small Businesses	High-Growth Ventures
Preferred funding source	Owner's own money	Other people's money
When the firm's in trouble	Cut costs	Sell more
What's more important	Sales	Marketing
Personal control preference	Retain autonomy	Involve key others
Focus	Efficiency	Effectiveness
Metastrategy	Imitation	Novelty
External control preference	Control firm	Control market
Grow	When necessary	When possible
Human resources	Personalize	Professionalize
Acceptance	Personal validation	External legitimacy
What limits growth	Loss of control	Market response
Delegation orientation	Delegation is difficult	Delegation is essential

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Small Business vs. High-Growth Ventures (cont.)

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Small Business vs. High-Growth Ventures

- **Innovativeness:** refers to how important a role new ideas, products, services, processes, or markets play in an organization
- **Potential for growth:** refers to the potential market size
- **Dynamic Capitalism Typology:** a model of an economy categorizing businesses based on their innovativeness and growth rate

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Small Business vs. High-Growth Ventures

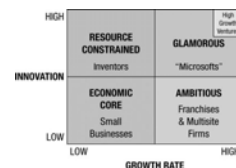
4 Sectors:

- Economic Core Sector
- Glamorous Sector
- Ambitious Firm Sector
- Resource Constrained Sector

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Small Business vs. High-Growth Ventures



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Rewards for Starting a Small Business:

- 3 Key Rewards:
 1. Flexibility
 2. Livable income
 3. Personal growth

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Example

Dream Job

- Survey conducted by the Graduate Management Admission Council (GMAC)
 - 1,000 college seniors, 49% male and 31% female were interested in pursuing entrepreneurship
 - College graduates' main concern used to be starting salary, now it's quality of life
 - Next Generation is looking for:
 - Ownership in a company
 - Freedom to set their own hours
 - Chance to make a difference

<http://www.entrepreneur.com/magazine/entrepreneur/1997/january/13766.html>

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Question

All of the following are myths about small businesses except:

- a) Need to make something to make money
- b) Growth is in the service industry
- c) There is not enough financing to start a business
- d) 70% of all new businesses fail within 2 years

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Myths about Small Businesses:

- There's not enough financing to start a business.
- Truth:
 - This is predominantly an issue that occurs at the initial start-up
 - In a recent survey, financing problems ranked 66th and 69th on the list
 - There are a wide variety of fundraising techniques, including investors, borrowing, and saving

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Example

Be Realistic About Startup Financing

- Free Government money for a “great business idea” is a myth
- Three general categories of start-ups:
 - The “just get going” startup – small service businesses without much startup financing
 - The elite, successful tech-savvy entrepreneurs – use angel investment and venture capital
 - The middle-ground businesses – need six figures for startup should scale down and change plans

<http://www.entrepreneur.com/startup/business/businessplans/businessplancoach.htm?article183606.html>

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Myths about Small Businesses:

- You need to make something (or something high-tech) to make money.
- **Truth:**
 - Growth is in the **service industry**.
 - **40 million** of the 110 million people working in the U.S. in 2001 worked in service industries

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Myths about Small Businesses:

- Seventy percent (or 80% or 90%) of all new business fail within two years.
- **Truth:**
 - **About two-thirds** of businesses with employees survive 4 years or more
 - **87%** of incubator-aided businesses survive 4 years or more

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Small Business and the Economy:

- Small business is vitally important to our communities and our economy
 1. New jobs
 2. Innovations
 3. New opportunities

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Small Business and the Economy:

- **New Jobs:** small businesses created **75%** of the last 3.4 million jobs created
 - Small business is the engine of job creation
 - **Occupational Structure:** the sequence or organization of jobs and careers in the economy
 - Small businesses employ more than half of all Americans
 - Small businesses are **key employers** – they employ people who have atypical work histories or needs

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Small Business and the Economy:

- **Innovations:** promotes creative destruction
 - **Creative Destruction:** the way that newly created goods, services, or firms can hurt existing competitors
 - Small businesses generate **13-14 times** more patents than big businesses

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Small Business and the Economy:

- **New Opportunities:** small business presents the best opportunities for many people who foresee problems fitting into mainstream jobs
 - Small businesses are the **support** for the boat that carries the economy: high-growth ventures and large companies
 - Small businesses provide **cheaper alternatives** to product manufacture, distribution, and ideas

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Summary

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