

EIGHTH EDITION

# Small Business Management

AN ENTREPRENEUR'S GUIDEBOOK

MARY JANE BYRD

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# Small Business Management

An Entrepreneur's  
Guidebook

*eighth edition*

Mary Jane Byrd  
University of Mobile



SMALL BUSINESS MANAGEMENT: AN ENTREPRENEUR'S GUIDEBOOK, EIGHT EDITION

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## About the Author

### Mary Jane Byrd

Mary Jane Byrd (DBA, IPMA-SCP) is professor of accounting and management at the University of Mobile, where she has been teaching for 32 years. She and her husband operate a small business that they founded in 1974. Dr. Byrd is certified by the International Public Management Association and participates with the Academy of Management, United States Association for Small Business and Entrepreneurship. She also serves on the editorial board for the *International Journal of Public Administration* and the boards of various local organizations. She has presented refereed papers both in the United States and in England, and has coauthored eight business textbooks. Various awards include: Teacher of the Year, several Outstanding Service Awards for local organizations, University of Mobile Research Award, and Who's Who. Her hobbies include water sports, reading, travel, and writing. She is married to Gerald Byrd, and they have three daughters: Kari, Juli, and Cori.

# Preface

This is a stimulating and exciting time to be involved in small business—either as an owner or as a student studying to become an owner. Events since the publication of the Seventh Edition of *Small Business Management* have drastically changed the environment in which entrepreneurs and small business owners now operate—and especially the way they will operate during this twenty-first century!

While operating any business—small *or* large—will probably be complex and challenging, it should also provide more interesting, creative, and rewarding experiences. Current events indicate that the next few years will present ever more stimulating, challenging, and rewarding—and no doubt at times frustrating—opportunities to those millions of brave women and men who own and/or manage these essential enterprises.

The information in this text is designed to assist the entrepreneur who is creating a new business, individual(s) purchasing a small business or franchise or opening their own new enterprise, and for anyone who is operating or managing a small business. Although most management practices are sound, they often need tweaking to be appropriate and applicable for the modern small business.

Success will require desire, commitment, knowledge, and hard work on their part—plus a certain amount of luck, as in any endeavor. This text provides an overview of the knowledge required.

## New to This Edition

The entire text has updated statistics, profiles, photos, Real-World Examples, and experiential exercises. Specific chapter updates include the following.

- Chapter 1 includes a new Real-World Example on a small business program sponsored by the Dept. Of Defense and the SBA that helps veterans transitioning from military to civilian life. A New key term—micro-business—has also been added.
- Chapter 2 features a new profile photo and updates regarding funeral homes and Feuerborn family business; new data from estimates that family owned business account for 80 to 90 percent of North American business enterprises, account for 78 percent of U.S. Gross Domestic Product, generate 62 percent of U.S. employment, and account for 78 percent of new job creation; new key terms—Copreneurs and Succession Planning; a new example from James Lea’s book, *Keeping it in the Family* lists seven steps that parents need to keep in mind as they begin to groom their children to follow in the family business; new reasons why businesses do not survive succeeding generations; and an update on estate tax returns: 114,600 estate tax returns in 2013 that had a liability in excess of \$40 billion dollars.
- Chapter 3 updates include a new key term—proprietorship, an update on S corporation tax returns, and an updated Real Word Example 3.6 regarding the shrinking pool of advertising dollars for television stations and how many small broadcasters are forming joint ventures to seek advertising dollars.
- Chapter 5 now includes a new Table 5.3: 2015 Biggest Global Franchises
- Chapter 6 begins with a new profile—Southern Comfort Carriage Ride—and concludes with a new Sample Business Plan in Appendix A.
- Chapter 8 includes a new profile on Hummingbird Ideas, which discusses the role of technology and social media in this innovative conceptual design and advertising studio.

- Chapter 9 features new coverage of using Social Media in Selecting Advertising Media.
- Chapter 10 offers an update on OSHA's required emergency action plan.
- Chapter 15 updates include a new key term: peer-to-peer payment and a new Real-World Example feature Square, a magnetic strip reader that plugs into the jack of a smartphone or tablet to allow small business owners to accept credit and debit cards.
- Chapter 16 provides new data on how "The Affordable Care Act is Working."

## To the Student

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This Eighth Edition of *Small Business Management: An Entrepreneur's Guidebook*—like the Seventh Edition—takes a practical, down-to-earth approach to conceiving, planning, organizing, and managing a small business. Based on extensive theory, research, and practice, the material in this edition is presented from a "how-to" perspective, with many practical examples and applications from the business world. The author has had meaningful experience in the "real world" as owner, manager, or employee of one or more small businesses.

The material in this text discusses the role and growing importance of small business. It explores the arguments both for and against owning a small firm. It presents up-to-date thinking about conceiving, preparing, starting, organizing, and operating a small business. It explains how to achieve optimum benefits from the limited resources available to small firms and how to plan for growth and succession in a business.

The Profiles at the beginning of each chapter are especially useful examples from the real world that highlight actual entrepreneurs' experiences. Sometimes it may be as helpful to present the "how not to" as the "how to" of small business. Thus, the Profiles, and numerous other examples, look at all sides of small business issues and experiences. Website addresses for organizations are given throughout.

Note that the websites included in this text are those that were in use at the time of writing and may or may not still be in use; however, they should give guidance as to what types of information can be gathered on the information superhighway.

## Organization of the Book

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**Part 1, The Dynamic Role of Small Business**, dramatizes the important role of small business in the United States and world economies; the chief characteristics of entrepreneurs and small business owners; the reasons why you should or should not own a small business; some current opportunities and challenges in small business; and the legal forms you can choose for your business. Also, the various issues and needs for today's family businesses' social responsibility and ethics are discussed.

**Part 2, How to Plan and Organize a Business**, explains in detail how to become the owner of a small business—including how to do strategic and operational planning—as well as the growing opportunities in franchising; how to prepare and present a winning business plan, along with a sample business plan; and how to obtain the necessary financing for your business.

**Part 3, How to Market Goods and Services**, discusses how to develop marketing strategies for producing a product (either a good or service) and selling and distributing it. Included are discussions of developing global markets, marketing research, and other related activities.

**Part 4, How to Organize, Manage, and Operate the Business**, explains the important role played by human resources in a business. It shows how to recruit, select, train, and compensate

the required number of capable employees. Students are encouraged to learn how to communicate with, motivate, and maintain good human relations with employees—and their union, when one is involved. It also deals with such important operating factors as locating and laying out facilities, purchasing and maintaining inventory, and assuring quality control.

**Part 5, Basic Financial Planning and Control**, explains what profit is, and how to plan for it; how to budget and control operations; and how to deal with taxes and recordkeeping. It also tells how to use insurance and crime prevention for better risk management and how to deal with laws affecting small businesses. It also discusses social responsibility and acting ethically.

Following Part 5, there is a Workbook for Developing a Successful Business Plan. The Workbook provides a discussion of what a business plan is and how to develop your own business plan. Instructions on how to use the Workbook to develop your own plan, using the case provided, or developing your own case are discussed. This Workbook should help you apply what you have learned from studying the text.

## Aids to Learning

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The text, which was written with the “millennial generation” in mind, provides many insightful visuals, including photos, tables, figures, charts, checklists, and cartoons to illustrate the concepts discussed. Throughout, real-life examples are provided, with their websites in many cases. Important terms or concepts that are defined in the chapter are boldfaced in the text for easy recognition and then defined in the margins. These terms are listed in a Glossary at the end of the book.

Each chapter begins with relevant, thought-provoking quotations, along with numbered Learning Objectives that set the stage for what should be learned in the chapter. A Profile is then presented. It describes an actual business and its business owner and how she or he operates that illustrates and gives a vivid, hands-on sense of the material to be covered.

Features at the end of the chapters include a summary—called “What You Should Have Learned”—which is coordinated with the numbered Learning Objectives at the chapter’s beginning to help review the text material; Questions to test mastery of the chapter; interesting Cases and Experiential Exercises that analyze, amplify, and apply the material learned.

We think the Eighth Edition of *Small Business Management* will stimulate your interest in owning or managing a small business. We hope you will identify with the individuals in the Profiles, examples, and Cases and through them and their experiences learn to be a better owner or manager of a small firm yourself.

## To the Instructor

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As an instructor, you will find this Eighth Edition of *Small Business Management: An Entrepreneur’s Guidebook* easy and interesting to teach from.

The outstanding strengths of this Edition include its simple, clear, and concise conversational writing style, numerous and varied visuals, and numerous and relevant examples throughout the text to reinforce the basic ideas being presented. The prevailing current topics of interest to small business owners, such as global issues, improving and expanding quality, franchising, computer operations, the Internet—and the mind-boggling implications it poses for small businesses—taxes and government regulations, estate planning, ethics and social responsibility, how to prepare and present a meaningful business plan, risk management, e-commerce, and—of course—how to plan for and make a profit, are discussed in sufficient depth to be meaningful to you and your students, while still being concise and short enough to be interesting and quickly comprehended.

At the start of each chapter there are philosophical, thought-provoking quotations to pique students' interest in the main concepts presented in the chapter. Then, Learning Objectives prepare students for what they should learn from the material in the chapter. These objectives are coordinated by number with the chapter-ending summary titled, "What You Should Have Learned." The Learning Objectives are followed by a Profile, which is a close-up view of a business and its owner(s) or manager(s). The Profile and "real-world" Cases in each chapter give helpful and colorful portraits of actual small businesses in operation. The Profiles feature actual business situations and events in small firms, although some are small businesses that have become large. The Profile provides the tone and focus for the chapter, including a grounding for what is to follow in entrepreneurs' actual experiences.

All chapters contain many visuals, including photographs, figures, tables, and—where they give an appropriate touch to discussions—cartoons. In the text, examples, illustrations, and real-life vignettes are set apart from the text in order to show students how the material they are learning has been applied to actual business situations. The most important words and/or phrases defined in the text are boldfaced for easy recognition and the definitions are highlighted in the margins. These terms are then listed in a Glossary at the end of the book. Voluminous endnotes provide authority for—and cite the sources of—the material discussed so that readers can get further information if they choose. The endnotes are grouped at the end of the book to prevent "clutter" on the text pages.

Several end-of-chapter features aid learning. We have mentioned the summaries, called "What You Should Have Learned," that are coordinated with the numbered Learning Objectives to provide for a better review of the material. Short-answer and review Questions for Discussion can be used for student assignments, class discussion, or quizzes. Finally, pertinent and interesting Cases and Experiential Exercises at the end of each chapter help students analyze the text material from the point of view of real-world situations.

To help you plan, teach, and evaluate your course, we have put together a valuable package of supplements that includes the following:

**Instructor Supplements:** McGraw-Hill Connect<sup>®</sup>: [connect.mheducation.com](http://connect.mheducation.com)

Continually evolving, McGraw-Hill Connect<sup>®</sup> has been redesigned to provide the only true adaptive learning experience delivered within a simple and easy-to-navigate environment, placing students at the very center.

- **Performance Analytics**—Now available for both instructors and students, easy-to-decipher data illuminates course performance. Students always know how they're doing in class, while instructors can view student and section performance at-a-glance.
- **Personalized Learning**—Squeezing the most out of study time, the adaptive engine within Connect creates a highly personalized learning path for each student by identifying areas of weakness and providing learning resources to assist in the moment of need.

This seamless integration of reading, practice, and assessment ensures that the focus is on the most important content for that individual.

### **Instructor Library**

The Connect Management Instructor Library is your repository for additional resources to improve student engagement in and out of class. You can select and use any asset that enhances your lecture. The Connect Instructor Library includes:

- **Instructor's Manual** with Chapter Overviews containing teaching suggestions, lecture outlines, answers to discussion questions, and numbered Learning Objectives which are coordinated with the end-of-chapter Summary;



- Test Bank containing true/false, multiple choice, and short-answer questions with the correct answers provided and page references made where the subject is discussed in the text;
- PowerPoint slides containing an overview of key points as well as figures and tables from the book.
- Small business and entrepreneurship videos.

**Student Supplements:** McGraw-Hill Connect<sup>®</sup>: [connect.mheducation.com](http://connect.mheducation.com)

The website includes the following supplements:

- Business plan templates.
- **LearnSmart<sup>®</sup>**: The Eighth Edition of Small Business Management is available with LearnSmart, the most widely used adaptive learning resource, which is proven to improve grades. To improve your understanding of this subject and improve your grades, go to McGraw-Hill Connect<sup>®</sup> [connect.mheducation.com](http://connect.mheducation.com), and find out more about LearnSmart. By helping students focus on the most important information they need to learn, LearnSmart personalizes the learning experience so they can study as efficiently as possible.
- **SmartBook<sup>®</sup>**: An extension of LearnSmart, SmartBook is an adaptive eBook that helps students focus their study time more effectively. As students read, SmartBook assesses comprehension and dynamically highlights where they need to study more.

## Important Current Issues Facing Small Business People

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We have discussed many topics with which small business owners and managers will be concerned. These include taxes and their payment; business laws; social responsibility and managerial ethics; marketing and global marketing; developing and presenting a business plan; and the use of technology.

We have discussed from a practical, applications-oriented point of view the issues of location and purchasing, especially in retailing and services; the expanding roles of small businesses; franchising; diverse groups; and sources of financing. Finally, the functional areas of any business operation are covered from a small business perspective. These features of the text discussion make this an excellent, up-to-date teaching tool, relevant to the twenty-first century's changing environments.

An innovative feature of this text is the Workbook for Developing a Successful Business Plan at the end of the book. It provides a hands-on guide for developing an actual business plan. This is in addition to the new Sample Business Plan, which is an appendix to Chapter 6.



## Acknowledgments

I wish to give my sincere thanks to those who contributed suggestions, cases, profiles, and examples to the text. Where appropriate, recognition is shown by the sources at the end of each Case or Profile. Our thanks also go to the many teachers, entrepreneurs, managers, and professional people, who made contributions.

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Eliza Drake Crosby and Megan Archer made a great contribution with their preparation of the Sample Business Plan, which appears as an appendix to Chapter 6.

Not enough can be said about the excellent and professional preparation of the *Instructor's Manual* by Carolyn Stafford Forbes. It should be of considerable assistance to teachers in presenting the text material.

I would also like to express our thanks and appreciation to our supportive colleagues and friends at McGraw-Hill/Irwin. Special thanks to our book team for this edition: Anke Weekes, executive brand manager; Laura Hurst Spell, senior product developer; and Kelly Hart, content project manager.

Finally, we would like to offer our thanks to the following people from the University of Mobile: Dr. Mark Foley, president; Dr. Audrey Eubanks, vice president for Academic Affairs; and Dr. Jane Finley, dean of the School of Business.

If we can be of assistance to you in developing your course, please contact jbyrd@umobile.edu.

*Mary Jane Byrd*



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# The Dynamic Role of Small Business

We are constantly being involved with small business, for it is everywhere! When we think of “business,” we may think of large corporations—such as Fortune 500 companies—but if you look around you, where you work and live, you will realize that the vast majority of businesses are small. Not only are these small businesses numerically significant, they are also important as employers, as providers of needed (and often unique) goods and services, and as sources of satisfaction to their owners, employees, and customers. For these and many other reasons, there is hardly anyone who has not at some time or other been tempted to start a small business.

Part 1 of this text is designed to show what is involved in forming and/or owning a small business. Thus, the material covered should help you decide whether pursuing a career in small business is the right course of action for you.

The growing importance of small business is covered in Chapter 1. Chapter 2 describes the need for planned management succession and discusses family and manager problems. Then, the more popular forms of ownership available to small businesses are presented in Chapter 3. Chapter 4 looks at the relationship with government agencies and discusses the need for social responsibility and ethical practices. ●

# Starting Your Small Business

*The good health and strength of America's small businesses are a vital key to health and strength of our economy. . . . Indeed, small business is America.*

—Former president Ronald Reagan

*Guts, brains, and determination—key ingredients of the American entrepreneurial spirit—[have] sustained this nation through good times and bad, and launched it on an economic journey unlike any ever witnessed in history.*

—John Sloan, Jr., president and CEO, National Foundation of Independent Business

## Learning Objectives

---

*After studying the material in this chapter, you should be able to:*

1. Define what is meant by the term *business*.
2. Name some of the unique contributions of *small business*.
3. Explain some of the current problems small businesses face.
4. Discuss some of the current trends challenging entrepreneurs and small business 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.



## PROFILE



Courtesy of Cori Byrd Lowe

### Filters—Now

Chad Summerlin could not find an air filter for his home. Well, he figured if he could not find what he needed, surely others were in the same situation. Chad saw a need and figured out how to fill it. There were no real vendors in the marketplace that sold odd-sized air filters for individual use except large chain stores, such as Home Depot and Lowes. If you found a vendor, they sold only in large bulk numbers. Chad and financial planner Ronald Allen decided that they could buy in bulk and resell over the Internet to satisfy consumer needs and make a little profit. They entered the Internet market with Filters-NOW just when the Internet bubble burst. This niche was hard to establish because people did not yet trust Internet companies with credit cards or other payment methods.

Ron and Chad shared the startup cost of the company. They chose not to use outside funding such as loans. The only overhead was the storage unit they rented to store the filters. They bought from bulk manufacturers, separated the units, and sold online from a U-Store-It warehouse. They then took on another partner who specialized in designing websites.

In the beginning Ron and Chad did everything by themselves. Phone calls were taken at Ron's personal business and work was done manually. They personally unloaded the trucks, mailed filters, and took orders. Later they hired a part-time retired friend to help unload and pack during the day. This job grew from 20 hours a week to 70 or more. This quickly led to hiring more part-time workers to fill demand.

Filters-NOW is a true Internet-based business. Although 3M told the founders they were "wasting time"

by selling on Internet, Chad and Ron thought consumers would enjoy finding a better selection on the web than in stores. They also have a store on Amazon.com. Filters-NOW sends out marketing e-mails on occasion to different target groups of customers, both new and previous customers who have not purchased in a while and customers who purchase specific products. These marketing e-mails offer discounts such as free shipping and a discount code for 10 or 20 percent off.

The company uses a variety of websites to continue to dominate the market: [www.filters-now.com](http://www.filters-now.com), [www.airfilterexpress.com](http://www.airfilterexpress.com), [www.airfilters.com](http://www.airfilters.com), [Amazon.com](http://Amazon.com), and eBay. Another channel of Internet marketing Ron and Chad use is Facebook and Twitter. New friends on Facebook get a discount code for "liking" them. There are also statuses or tweets about the activities of the company. For example, they will tweet about what the weather is like at their home at Creola, Alabama, what activities the employees are doing, and the public relations events the company sponsors. This summer as a company they participated in a 5k run in order to increase awareness for the company and to participate in events in the community. Also, for breast cancer awareness employees got pink hair extensions or feathers.

In 2004, the company decided to start manufacturing its own product in addition to buying and breaking bulk. Currently it produces its own brand of custom-sized air filters called Accumulair. It produces and sells more than 17,000 products and employs close to 100 people. Twenty-one people work in the office and the rest are in production, shipping, and receiving. Its warehouse is 50,000 square feet for the plant with 15,000 square feet

in off-site storage. Additional storage trailers are on site.

The Filters-NOW product line includes air filters, humidifier filters, purifier filters, vacuum filters, water filters, water bottle filters, swamp coolers, aquarium filters, whole house filters, grill filters, air purifier and humidifier units, and many more miscellaneous items.

Filters-NOW made its first sale on May 15, 2000. By the end of 2003, its sales totaled \$2.8 million, and by 18 million in 2011 when Chad Summerlin sold out.

Source: Personal interview of Chad Summerlin, MBA, by Epsie Long, October 28, 2011.



You have probably never heard of Chad Summerlin. But you have heard of companies such as Walmart, Sears, McDonald's, Dell Inc., Intel, and Microsoft. All of them were started as small businesses by then-unknown entrepreneurs such as Sam Walton, Richard Sears, Ray Kroc, Michael Dell, Andrew Grove, and Bill Gates. By capitalizing on their imagination, initiative, courage, dedication, hard work, and—often—luck, these entrepreneurs turned an idea into a small struggling business that became a large, successful one.

Now it is your turn to see if you can start (or restart) your career as an entrepreneur—by converting an idea into a small business. According to Joseph Nebesky, who has served as an adviser to the U.S. Agency for International Development, the Small Business Administration (SBA) ([www.sba.gov](http://www.sba.gov)), and the National Council on the Aging, these small firms “are the backbone of the American economy.” He is right: Firms with fewer than 500 employees employ 53 percent of the total private nonfarm workforce, contribute 47 percent of all sales in the country, are responsible for 51 percent of the gross domestic product, and produce around two out of every three new jobs each year. They also account for more than half of U.S. gross domestic product. In 2009, over 10 million people were self-employed with another 140,000 unpaid family workers.

### It Is an Interesting Time to Be Studying Small Business

This is indeed an interesting, challenging, and rewarding time to be studying small business. Owning and operating such a firm is one of the best ways to fulfill the “great American dream,” and many Americans believe this is one of the best paths to riches in the United States.

The following are some reasons for the increased interest in small business:

- The number of small businesses is growing rapidly.
- Small firms generate most new private employment.
- The public favors small business.
- There is an increasing interest in small business entrepreneurship at high schools and colleges.
- There is a growing trend toward self-employment.
- Entrepreneurship is attractive to people of all ages.



## The Number of Small Businesses Is Growing Rapidly

The development of small business in the United States is truly an amazing story. The value of goods and services they produce and the new jobs they generate make the small business sector one of the greatest economic powers in the world, accounting for trillions of dollars' worth of commerce annually. There are about 28 million small businesses in the United States. These organizations create 75 percent of the new jobs and employ 50 percent of the country's private workforce. Forty percent of current new business owners are self-employed and do not hire any workers. Of the remaining 60 percent, only about two-thirds employ more than 20 people. In 2012 there were about 1.9 men for every female owner or operator. Today's typical entrepreneur is young, male (ethnically diverse), between the ages of 25 to 34, and has specialty expertise.

## The Public Favors Small Business

Generally, small business owners and managers believe in the free enterprise system, with its emphasis on individual freedom, risk taking, initiative, thrift, frugality, and hard work. Indications of interest in small business and entrepreneurship can be explained by the large number of magazines aimed at that market. These include older ones, such as *Black Enterprise* ([www.blackenterprise.com](http://www.blackenterprise.com)), *Entrepreneur, Inc.*, and *Hispanic Business* ([www.hispanicbusiness.com](http://www.hispanicbusiness.com)), and many new ones such as *Fortune Small Business*. Some of these journals are targeted for specific markets. *Family Business* targets family-owned businesses; *Entrepreneurial Woman* aims at female business owners; and *Your Company*, sent free by American Express ([www.americanexpress.com](http://www.americanexpress.com)) to the millions or more holders of its small business corporate card, targets small firms. Other journals include *Journal of Small Business Management*, *International Small Business Journal* ([www.isb.sagepub.com](http://www.isb.sagepub.com)), *New Business Opportunities*, and *Business Week Newsletter for Family-Owned Businesses* ([www.businessweek.com](http://www.businessweek.com)). Please note that the *BusinessWeek* site requires registration and a fee in order to view the entire file.

## Interest Is Increasing at High Schools, Colleges, and Universities

Another indication of the growing popularity of small business is its acceptance as part of the mission of many high schools, colleges, and universities, where entrepreneurship and small business management are now academically respected disciplines. Virtually unheard of 20 years ago, courses in entrepreneurship are now offered at hundreds of U.S. colleges. Many university classes explore startups and business plans. Today more students think self-employment is a safer haven than working for big corporations. One survey has indicated that even teens between the ages of 13 and 18 see business as an ideal job. Thirteen percent of males and 10 percent of females are already aiming toward a business career.<sup>1</sup>

The considerable interest at colleges and universities is shown by the formation of many student organizations to encourage entrepreneurship. For example, the Association of Collegiate Entrepreneurs (ACE), founded in 1983 at Wichita State University, now has hundreds of chapters throughout the world. Other organizations include the University Entrepreneurial Association (UEA) and ENACTUS ([enactus.com](http://enactus.com)).

Offering courses for small business owners is one of the fastest-growing areas in the community college field. Many colleges and universities are now offering specialized business courses, such as programs in family business, franchising, and international operations, as well as job fairs and career days.

## Trend Is toward Self-Employment

The growth rate for self-employment is usually greater than the growth rate of the general workforce.

**TABLE 1.1** | Self-Employed by Selected Industry<sup>2</sup>

Agriculture, forestry, fishing, hunting	8%
Construction	17%
Professional business services	21%
Financial activities	7%
Wholesale and retail trade	9%
Leisure and hospitality	7%
Education and health services	11.5%

However, in 2014, about 9 million or 6 percent of all U.S. workers were self-employed, which was a decline from 2009 of about 6 million workers. Much of this can be explained by the recession the United States suffered during the time frame.<sup>3</sup>

Working for oneself is a dream come true for many. Technology is available to help so many of us own and operate our businesses. Table 1.1 illustrates the number of self-employed by industry.

### Entrepreneurship Is Attractive to All Ages

Entrepreneurship knows no age limits! From the very young to the very old, people are starting new businesses at a rapid rate. Particularly heartening is the large number of young people who are entrepreneurs. For example, 15-year-old Laima Tazmin is president of LAVT LLC, a Web consulting company. She customizes computers and develops community-based online businesses. Laima turned her love for computers into a business plan that initially won a regional competition and then, with a few changes, won her top notch as “Young Entrepreneur” in a contest sponsored by Fleet Bank. This prize netted her \$25,000 and broad media exposure. Laima says “Entrepreneurship is about planning for the future. . . . I want to grow myself.”<sup>4</sup>

#### Real-World Example 1.1

Age is not a requirement for success in starting small businesses. Megan Crump is a good example of a young entrepreneur. At age seven she found an exciting way to make money. After a successful evening of trick-or-treating, Megan took all her candy to school and sold it to her schoolmates for a handsome profit of \$3 the first day and \$1 the second day. She later held a yard sale where, among other things, she sold her sister’s used bicycle for \$9. The resourcefulness of youngsters such as Megan should continue to stimulate our economy well into the twenty-first century.<sup>5</sup>

College entrepreneurs find many areas for opening a business. These include reselling textbooks, importing and selling crafts from home, renting mini fridges and microwaves, dorm cleaning services, and transportation. The most difficult problem for these students to solve is what to do with their business after they graduate.

Older people are also involved in forming new companies, as small businesses offer the most opportunities and flexibility to retirees or those terminated from their regular employment. For example, Maralee DeMark retired from her career as an information



technology manager in 2013; she and her sister combined their talents and income and opened a locally supplied organic restaurant, Two Sisters Market Cafe, in Terrell, North Carolina, the same year.<sup>6</sup>

### Real-World Example 1.2

Veterans transitioning from military to civilian life are able to get assistance in starting a small business through a program sponsored by the Department of Defense and the Small Business Administration. The Boots to Business Entrepreneurship is a free two-day seminar offering intensive training as well as resources. Veterans can then elect to take part in an eight-week online course in the fundamentals of developing an actionable business plan. Boots to Business has trained over 25,000 transitioning service members (<http://bootstobusiness.org/vets-go-from-boots-to-business>).

As they get their businesses started, they can affiliate at no cost with The Veteran-Owned Business Project, a business directory of disabled, active, reserve veteran-owned businesses (<http://www.veteranownedbusiness.com>). This also provides further opportunities for growing their small business through local and government networking (<http://www.gsa.gov/portal/category/108235>).

Several states now have the Self-Employment Assistance (SEA) program. This lets people launch their new business while collecting state unemployment checks. Currently SEA is offered in New York, New Jersey, Oregon, Washington, and Maine. About 2,000 are now in the program, which has a federal cap of 5 percent.

### Real-World Example 1.3

Retirement age and Barry Duckworth found himself looking for a new career. He and his wife, Dr. Carolee Cameron-Duckworth opened a business matching kids with tutors in their own homes, where children would feel safe. Mastery Tutors (<http://www.masterytutors.com>) and with one-on-one attention, bloomed. The search for the child's missing pieces in learning comes first; a tutor with a program designed for that child's success is next. After much success, Duckworths retired again, and Jill Adams is carrying on Mastery Tutors' torch.

Twenty-something entrepreneurs know no fear. This group believes "failure" is relative, and if you fail—learn from it—the lesson can speed you up the ladder of the next venture.

### Real-World Example 1.4

Jeremy Kahn and Henry Rich noticed that every time someone needed a cigarette the phrase "oral fixation" came up. One thing led to another and Oral Fixation Mints were born. This wacky idea has produced sleek tins of candy that can be purchased at Miami's Mandarin Oriental Hotel and New York City's Whitney Museum of Modern Art.

It is interesting to note that more than half of the million-plus independent workers in New York City are usually college educated and are 25 to 40 years old.<sup>7</sup> A recent survey of small business owners reinforces the boldness of new entrepreneurs. Eighty-four percent of those polled are certain they have properly planned for their businesses' future needs. They are "not worried about the future."<sup>8</sup>

Many groups, such as the American Association of Retired Persons (AARP) ([www.aarp.org](http://www.aarp.org)), colleges, and private consultants now offer classes—and, more important, support groups—specifically for retirement-aged potential and actual entrepreneurs.

A word of caution is needed at this point. If you start a business, you cannot just "turn it on and off" like a light switch—that is, you cannot take time off whenever you want. If your business is to succeed, you cannot shut down for holidays or vacations or when things are not going well. As one discouraged small business owner said at a recent conference, "A small business is wonderful: You only have to work half a day—and you get to choose which 12 hours it is that you will work!"

## Defining Small Business—No Easy Task

Now that we have seen how much interest there is in small business, what *is* small business? There is no simple definition, but let's look at some definitions that are frequently used.

### What Is Small?

At first, this question appears easy to answer. Many places of business that you patronize—such as independent neighborhood grocery stores, fast-food restaurants, hair stylists, dry cleaners, video or music shops, and the veterinarian—are examples of small businesses.

Qualitative factors are also important in describing small businesses. To be classified as "small," *a small business must have at least two of the following features:*

- Management is independent, because the manager usually owns the business.
- Capital is supplied and ownership is held by an individual or a few individuals.
- The area of operations is primarily local, although the market is not necessarily local.
- The business is small in comparison with the larger competitors in its industry.

Perhaps the best definition of small business is the one used by Congress in the Small Business Act of 1953, which states that *a small business is one that is independently owned and operated and is not dominant in its field of operation*. We'll use that definition in this text, unless otherwise indicated.

As will be shown in Chapter 7, the SBA, for loan purposes, uses different size criteria by industry. In general, however, it uses the size classification shown in Table 1.2. In Europe, small firms are considered different from country to country. In the European Union (EU), about 34 percent of the workforce is employed in firms with 10 or fewer employees.<sup>9</sup>



Courtesy of Carolyn Stafford Forbes

*More and more seasoned professionals, unemployed due to layoffs or early retirement, are turning to creating small businesses they can manage from home. This allows them to spend more time with their families.*

**TABLE 1.2** | Classification of Business by Size, According to SBA

Under 20 employees	Very small
20–99	Small
100–499	Medium
500 or more	Large

Source: Small Business Administration.

## Distinguishing between Entrepreneurial Ventures and Small Businesses

We also need to distinguish between small businesses and entrepreneurial ventures. The rapidity of the rate of growth of a business is one useful way to distinguish between small business owners and entrepreneurs.

An **entrepreneurial venture** is one in which the principal objectives of the entrepreneur are profitability and growth. Thus, the business is characterized by innovative strategic practices and/or products. The entrepreneurs and their financial backers are usually seeking rapid growth, immediate—and high—profits, and a quick sellout with (possibly) large capital gains.

A **small business**, sometimes called a micro business, on the other hand, is any business that is independently owned and operated and is not dominant in its field. It may never grow large, and the owners may not want it to, as they prefer a more relaxed and less aggressive approach to running the business. They manage their business in a normal way, expecting normal sales, profits, and growth. In other words, they seek a certain degree of freedom and—ideally—a certain degree of financial independence. By 2010 **micro-business** had created a net of 5.5 million jobs ([getbusymedia.com](http://getbusymedia.com)).

These businesses are often run from the owner's home. They account for more than 60 percent of the nation's 5.6 million employers and more than \$100 billion in annual spending.<sup>10</sup> A survey in 1999 found that 1 in 12 adults was trying to found a new business.<sup>11</sup> Currently more than 16 million people in the United States work from home ([www.getbusymedia.com](http://www.getbusymedia.com)).

It is not always easy to distinguish between a small business owner and an entrepreneur; the distinction hinges on their intentions. In general, a **small business owner** establishes a business for the principal purpose of furthering personal goals, which *may* include making a profit. Thus, the owner may perceive the business as being an extension of his or her personality, which is interwoven with family needs and desires. On the other hand, the **entrepreneur** starts and manages a business for many reasons, including achievement, profit, and growth. Such a person is characterized principally by innovative behavior and will employ strategic management practices in the business. Of course, the owner's intentions sometimes change, and what started out as a small business may become an entrepreneurial venture.

## Some Unique Contributions of Small Business

As indicated throughout this chapter, small firms differ from their larger competitors. Let's look at some major contributions made by small businesses that set them apart from larger firms. Smaller firms tend to:

- Encourage innovation and flexibility.
- Maintain close relationships with customers and the community.
- Keep larger firms competitive.

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

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

A **micro-business** only has one to four employees.

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

The goals of an **entrepreneur** include achievement, profit, and growth, achieved through innovation and strategic management.



- Provide employees with comprehensive learning experience.
- Develop risk takers.
- Generate new employment.
- Provide greater employee job satisfaction.

### Encourage Innovation and Flexibility

Smaller businesses are often sources of new ideas, materials, processes, and services that larger firms may be unable or reluctant to provide. In small businesses, experiments can be conducted, innovations initiated, and new operations started or expanded. In fact, small firms produce 55 percent of all innovations.<sup>12</sup> In 2014, there were 158,000 patents issued by the U.S. Patent and Trademark Office ([www.uspto.gov](http://www.uspto.gov)). It is interesting to note that the United States leads the globe in patent applications.<sup>13</sup> If we apply the 55 percent innovation rate, we can say that more than 105,500 patents were issued to small businesses. This trend is especially true in the computer field, where most initial developments have been carried on in small companies.

#### Real-World Example 1.5

For example, it is no coincidence that IBM did not produce the first electronic computer, as it already owned 97 percent of the then-popular punched-card equipment, which the computer would tend to make obsolete. Instead, the Univac was conceived and produced by a small firm formed by John Mauchly and J. Presper Eckert. However, while they were design experts, they lacked production and marketing skills, so they sold out to Remington Rand, which controlled the remaining 3 percent of the punched-card business. Thus, the first giant computers at organizations such as the U.S. Census Bureau and General Electric's Appliance Park in Kentucky in January 1954 were Univacs. Nonetheless, IBM's marketing expertise overcame Remington's production expertise, and IBM soon dominated the computer industry.

Also, it is no coincidence that two design geniuses, Steven Jobs (age 21) and Steve Wozniak (age 19) essentially started the PC industry by founding Apple Computer in 1976 with capital obtained by selling Job's Volkswagen microbus and Wozniak's Hewlett-Packard scientific calculator. And Michael Dell (age 19) started Dell Inc. by selling computer parts from his dorm room at the University of Texas. He started out to "make it big."

### Maintain Close Relationship with Customers and Community

Small businesses tend to be in close touch with their communities and customers. They can do a more individualized job than big firms can, thereby attracting customers on the basis of specialty products, quality, and personal services rather than solely on the basis of price. While competitive prices and a reputation for honesty are important, an atmosphere of friendliness makes people feel good about patronizing the business and encourages them to continue shopping there.

Main Street programs ([mainstreet.org](http://mainstreet.org).) are designed to encourage community revitalization, economic development, historic preservation, and downtown revitalization. More than 2,000 communities have been a part of Main Street, securing \$62 Billion in new

investment, creating 525,000 jobs, and rehabilitating 251,000 buildings. Each year the National Trust for Historic Preservation recognizes winners. 2015 winners were Cape Girardeau, Missouri; Montclair, New Jersey; and Rawlins, Wyoming. One eye-opener was when a small community was ready to give up when Walmart opened; instead, they all pulled together and were able to compete—and survive—by providing better customer service and products that were unique.

### Real-World Example 1.6

For example, Mike and Carol Hamilton's Chutters General Store ([chutters.com](http://chutters.com)) has 111 feet of candy jars, making them the home of the world's largest candy counter according to the *Guinness Book of World Records*. Their store is one of the stars in Littleton, New Hampshire, which received the 2003 Great American Main Street Award.<sup>14</sup>

## Keep Larger Firms Competitive

Smaller companies have become a controlling factor in the American economy by keeping the bigger concerns on their toes. With the introduction of new products and services, small businesses encourage competition, if not in price, then at least in design and efficiency, as happened in the area of California now called Silicon Valley, where the personal computer was developed.

## Provide Employees with Comprehensive Learning Experience

A small business provides employees with a variety of learning experiences not open to individuals holding more specialized jobs in larger companies. Along with performing a greater variety of functions, small business employees also have more freedom to make decisions, which can lend zest and interest to their work experience. Small businesses train people to become better leaders and managers and to develop their talents and energies more effectively. This reality has led more college graduates to seek full-time jobs with small businesses, according to a survey by the National Association of Colleges and Employers. The reason for this trend is that small companies "tend to offer broader experiences because of their small staffs." Thus, employees "get more responsibility, more quickly," according to one graduate applicant.

## Develop Risk Takers

Small businesses provide one of the basic American freedoms—risk taking, with its consequent rewards and punishments. Small business owners have relative freedom to enter or leave a business at will, to start small and grow big, to expand or contract, and to succeed or fail, which is the basis of our free enterprise system. Yet founding a business in an uncertain environment is risky, so much planning and study must be done before startup.

## Generate New Employment

As repeatedly emphasized throughout this chapter, small businesses generate employment by creating job opportunities. Small firms also serve as a training ground for employees, who, because of their more comprehensive learning experience, their emphasis on risk taking, and their exposure to innovation and flexibility, become valued employees of larger companies.

**Real-World Example 1.7**

According to Brynn Albretsen (profile, Chapter 5), “The best advice I can give as to how to start your own business: Be a student, always. Continue to learn new things, try new things, read new things, and stay current on business and technology. Be a sponge and learn as much as you can from those around you, teachers, business professionals, and others. Take off the blinders, do not get stuck in a rut of ‘this is how it has always been done,’ make a concerted effort to see things from different perspectives and challenge yourself to think outside the box.” Starfish is a small weight-sensor that fits into a child’s car seat, links via Bluetooth to your iPhone or Android device, when you put your child in the car seat. Starfish sends you a notification that the child is in the car seat. Once activated, Starfish puts a 20 foot geo fence around your child. If you leave, you will receive a notification alarming you of your deadly mistake. If you fail to respond within five minutes Starfish will alert your emergency contacts.

**Provide Greater Job Satisfaction**

Small companies also provide greater employee job satisfaction. For example, an Inc.com /Gallup survey of American workers found that employees in smaller workplaces have higher job satisfaction than those in larger firms. But the greatest satisfaction comes to those who own their own workplaces.

**Some Current Problems Facing Small Businesses**

Just as small companies make unique contributions, there are special problems that affect them more than larger businesses. These problems can result in limited profitability and growth, the decision to voluntarily close the business, or financial failure.

There is a great deal of conflicting data on the failure rate of small businesses. Most statistics err on the optimistic side, which can be explained by the huge number of small businesses that never make it into the reporting system. Among the biggest worries facing small business owners today are:

- Recession/current economic issues.
- Retirement or transition.
- Capital or financing issues.
- Unexpected growth.
- Succession.<sup>15</sup>

Over time, we see repeated areas that create problems for small business owners and entrepreneurs. These areas include inadequate financing, inadequate management, and burdensome government regulations and paperwork.

**Inadequate Financing**

In the preceding list, inadequate financing is the primary cause of new business failure. *It cannot be stressed enough that a shortage of capital is the greatest problem facing small business owners.* Without adequate funds, the small business owner is unable to acquire and maintain facilities, hire and reward capable employees, produce and market a product, or do the other things necessary to run a successful business.



## Inadequate Management

Inadequate management—in the forms of limited business knowledge, poor management, inadequate planning, and inexperience—is the second problem facing small firms. Many owners tend to rely on one-person management and seem reluctant to vary from this managerial pattern. They tend to guard their position very jealously and may not select qualified employees, or may fail to give them enough authority and responsibility to manage adequately. Most small businesses are started because someone is good at a specific activity or trade, not because she or he has managerial skill.

Managers of small firms must be generalists rather than specialists. Because they must make their own decisions and then live with those choices, managers are faced with a dilemma. Because the business's resources are limited, it cannot afford to make costly mistakes; yet because the organization is so small, the owner cannot afford to pay for managerial assistance to prevent bad decisions.

## Burdensome Government Regulations and Paperwork

If you want to upset small business managers, just mention government regulations and paperwork. That is one of their least favorite subjects—and with good reason. At one time, smaller firms were exempt from many federal regulations and even some state and local ones. Now, small firms are subject to many of the same regulations as their larger competitors. These regulations are often complex and contradictory, which explains why small business managers find it so difficult to comply with governmental requirements. While most businesspeople do not purposely evade the issues or disobey the law, they are often unaware of all pertinent regulations and requirements. As will be shown in Chapter 4, however, small businesses often benefit from many of these regulations.

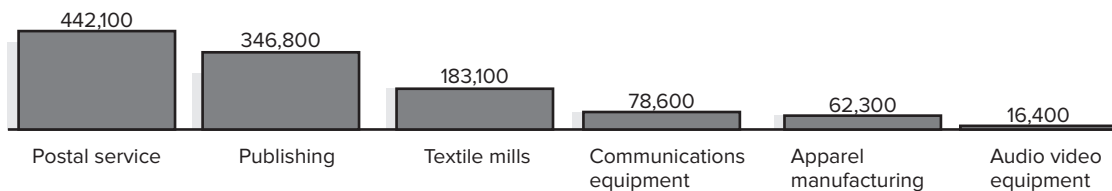
## Some Current Trends Challenging Small Business Owners

Small firms, like large ones, are now experiencing fundamental changes and new trends in the way business is conducted and people are being employed. If small businesses are to overcome the problems just discussed, they must be prepared to recognize and cope with current trends that are potentially rewarding but that will challenge them and require their best performance. The most important trends are exploding technology, occupational and industry shifts, and global challenges.

### Exploding Technology

Few jobs in small firms are unaffected by improvements in communications and computer technology. Small business management is being drastically changed as automated robotics are introduced in production departments, as accounting departments become heavily dependent on computer support, and as marketing people use computer-aided promotional and sales programs.

The primary challenge of exploding technology for small companies will be to improve the selection and training of workers and overcome their resistance to change. Therefore, owners and managers must keep up to date themselves on the latest technologies so they can effectively train their people to use these technologies, including telecommuting. Chapter 15 will introduce you to many examples of computer software and new technology available for the small business owner. According to the Office of Advocacy, U.S. Small Business Administration in 2015, 47 percent of all jobs in the high-tech

**FIGURE 1.1** | Declining Job Types by 2022<sup>16</sup>

Source: Pro Quest Statistical Abstract, 2016, (4th ed), Bethesda, MD p. 144, t 683.

sector are through small business.<sup>17</sup> Figure 1.1 projects the areas of decline for the next five years.

### Occupational and Industry Shifts

Technological advances in automation, computers, robotics, and electronic communication, along with changing markets resulting from cultural, demographic, and economic changes, have affected traditional “smokestack” industries. These changes have caused a concurrent shift toward more people-related activities to which small business enterprise is exceptionally well suited, such as health care, banking and financial services, retail trade, transportation, and computer services.

Among these shifts, **reinvention**, particularly including a reduction in the size and markets for businesses, has led to fewer job opportunities for those who are less well trained and educated. At the same time, many larger companies have **reengineered** their activities, which has involved wiping the slate clean as far as current operations are concerned and asking, “If we blew this place up and started over, what would we do differently? What should we eliminate? What can we do that would make things easier for our customer?” The result is **downsizing** (sometimes called **rightsizing**), whereby an organization reduces the number of people it employs as it strives to become leaner and meaner and consolidates departments and work groups.

This movement is giving people more responsibility for making decisions and the chance to escape acting like automatons—but they must work harder, and they are under more pressure. *These shifts help smaller firms, as many highly skilled workers and managers leave to join the ranks of small business owners and managers.*

### Global Challenges

The trend in business is to become more active globally, and those interested in small business management need to understand at least what the challenge is and what the rewards may be. We are entering an age of global competition and a one-world market. Consequently, *we estimate that up to half of all today’s college graduates will work in some type of global activities in the future.* Small businesses in 2015 represented 98 percent ([sba.gov](http://sba.gov)) of all U.S. exporters.<sup>18</sup>

One result of this global challenge is the growing number of large and small U.S. businesses that are or become foreign owned. These foreign-owned companies tend to have different management styles from their original American owners, which means small business owners and managers must learn to adjust and adapt to nontraditional styles. While foreign ownership may lead to new management styles, the American consumer may not realize the change.

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

**Reengineering** is the redesign of operations, starting from scratch.

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

**Real-World Example 1.8**

At one time, for example, few Americans knew or cared that consumer products for sale with RCA and GE brand names were owned by a French company, Thompson S.A. Magnavox and Sylvania were owned by Philips Electronics of The Netherlands, and Quasar was made by Japan's Matsushita Electric Industries. Even Zenith, the last television sets to be "Made in America," are made in South Korea by LG Electronics. But it really doesn't seem to make that much difference to consumers.

## Why People Start Small Businesses

One cause of the explosion of new entrepreneurs is the current trend of today's corporate professionals who leave their large companies to start their own businesses. The changing environment in large firms is leaving employees frustrated and uncertain about their future. Thus, they leave to find a better job or—as many are now doing—to start their own company, using the expertise they learned at the larger firm.

As these employees who go out on their own are aware, owning a small business provides an excellent opportunity to satisfy personal objectives while achieving the firm's business objectives. Probably in no other occupation or profession is this as true. But there are almost as many different reasons for starting small businesses as there are small business owners. However, those reasons can be summarized as (1) satisfying personal objectives and (2) achieving business objectives.

### Satisfy Personal Objectives

Small business owners have the potential to fulfill many personal goals. In fact, owning a small business tends to satisfy most of our work goals. According to a survey by Padgett Business Services USA Inc. ([www.smallbizpros.com](http://www.smallbizpros.com)), the best things about owning a small business are independence (cited by 72 percent of those surveyed), control (10 percent), satisfaction (10 percent), and other factors (8 percent). The worst parts of such ownership are the long hours (mentioned by 23 percent of respondents), taxes (22 percent), risk (17 percent), responsibility (17 percent), and other factors (12 percent).

Similar results were found in a study by the National Bureau of Economic Research in Great Britain, where 46 percent of the self-employed were "very satisfied," versus 29 percent of those working for others. In the United States, the numbers were 63 percent versus 27 percent. Victoria Neal said, "It is our youth who've happened upon the realization that they would be a heck of a lot better off just working for themselves."<sup>19</sup>

The personal objectives of owners of small businesses differ from those of managers of larger firms. Managers of large companies tend to seek security, place, power, prestige, high income, and benefits. By contrast, the primary objectives of small business owners are as follows:

- Achieve independence.
- Obtain additional income.
- Help their families.
- Provide products not available elsewhere.

In summary, the personal objectives of small business owners tend to be achievement oriented, as opposed to those of managers of large firms, who tend to be power and prestige



oriented. How these personal objectives are achieved depends on the knowledge, skills, and personal traits these owners bring to the business. A good checklist for aspiring entrepreneurs according to Duncan Cheatele of the United Kingdom includes these thoughts:

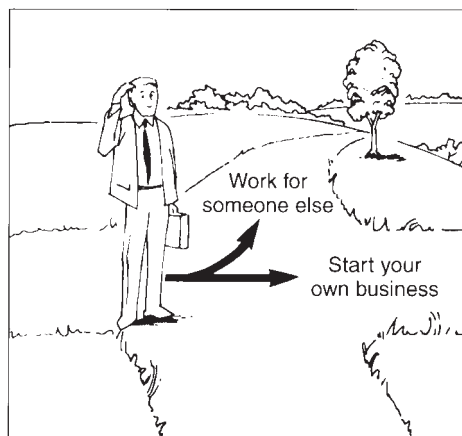
- Do it for passion not money.
- Do something you know about.
- Don't give up too early.
- Have a mentor.
- Have appropriate funding.
- Be a good cash manager.
- Build sales first.
- Don't try to rush.
- Be wary of bad advice or suppliers.<sup>20</sup>

**Achieve Independence** The new business owner's primary motive is usually independence, that is, freedom from interference or control by superiors. Small business owners tend to want autonomy to exercise their initiative and ambition; this freedom often results in innovations and leads to greater flexibility, which is one of the virtues of small businesses. People who operate small firms know they are running a risk when they strike out on their own, but they hope to realize their goal of independence. In essence, owning your own business provides a feeling of satisfaction that may be missing if you work for someone else. As you can see from Figure 1.2, this is the choice the prospective entrepreneur must make.

**Obtain Additional Income** Many people start a business to obtain needed income. This need obviously varies with different people in different life stages or situations. For example, a retired person may want to earn just enough to supplement Social Security payments and possibly provide a few luxuries. Such a person may be content with a business that provides a small supplement to retirement income.

On the other hand, owning a business can provide the opportunity to make a great deal of money and to take advantage of certain tax benefits. (You should consult your

**FIGURE 1.2** |  
Which Road to Take?



lawyers and tax accountants, though, to make sure you stay on the right side of tax laws, which have been modified to remove many of these benefits.) Not all small business owners and managers make a lot of money, nor do they all intend to.

As said at the outset, people sometimes start small businesses after being unable to find employment elsewhere or after being discharged from a larger firm. Professional athletes, whose bodies are a wasting asset and who must retire early, often find a second career in small businesses they have formed. For example, Earvin “Magic” Johnson, the former Los Angeles Lakers star player, has invested in inner cities that have been ignored or abandoned by other entrepreneurs. His Magic Johnson Theaters have created at least 100 new jobs at each of their locations in Atlanta, Houston, New York, Ohio, and Los Angeles. His mission is “to revitalize the underserved communities.” The result has been one of the highest-grossing theater complexes in the nation. This group has now merged with AMC Entertainment, Inc., to create a combined total of 200 years of successful operations.

**Help Their Families** Small business owners are probably motivated as much by personal and family considerations as by the desire for profit. Students may return home to operate the family business so their parents can retire or take life easier. They may take over the firm on the death of a parent or form a business to help their family financially. There are over 10 million women-led businesses generating in excess of \$1.6 trillion in revenues.<sup>21</sup> These companies play a big role in providing flextime, allowing mothers to be “stay at home moms.”

**Provide Products Not Available Elsewhere** The saying, “Necessity is the mother of invention” applies to the beginning of many small firms. In fact, most American economic development has resulted from innovations born in small firms. Relative to the number of people employed, small firms produce two-and-a-half times as many new ideas and products as large firms. The first air conditioner, airplane, automobile, instant camera, jet engine, helicopter, office copier, heart pacemaker, foam fire extinguisher, quick-frozen foods, sliced and wrapped bread, vacuum tube, zipper, and safety razor—not to mention the first giant computer, as well as many other breakthroughs—either resulted from the creativity found in small companies or led to the creation of a new business, as the following example illustrates.

#### Real-World Example 1.9

Lloyd Mandel recognized a need for more economical funerals. As most funeral homes began to offer more services, such as expensive seals and elaborate ceremonies, he identified a growing need for basic rituals. Mandel opened such a “funeral store” in a Skokie, Illinois, mall 12 years ago.

He was so successful that he was bought out by the huge Service Corporation International (SCI). He is now a regional vice president who does research and similar ventures for Service Corp.

### Achieve Business Objectives

**Objectives** are the goals toward which the activities of the business are directed.

One of the most important functions any business owner must perform is setting **objectives**, which are the ends toward which all the activities of the company should be aimed. Essentially, objectives determine the character of the firm because they give the business its direction and provide standards by which to measure individual performance.

Among the objectives that are important to a business are service, profit, social, and growth objectives. These objectives tend to be interrelated. For example, the service objective must be achieved to attain the profit objective. Yet profits must be made if the business is to continue to reach its social and service objectives. Growth depends on attaining both profit *and* social objectives, which are not necessarily incompatible.

**Service Objective** In general, the objective of a business is to serve customers by producing and selling goods or services (or the satisfactions associated with them) at a cost that will ensure a fair price to the consumer and adequate profits for the owners. Thus, a person who aspires to operate a small business *must set service as the primary objective—but seek to make a profit as a natural consequence*. The pragmatic test for a small firm is this: If the firm ceases to give service, it will go out of business; if there are no profits, the owners will cease operations.

**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 the business.

**Profit Objective** **Profit** is the revenue received by a business in excess of the expenses paid. We expect a private business to receive a profit from its operations because profit is acceptable in a free-enterprise economy and is considered to be in the public interest. Simply stated, the **profit motive** is entering a business to make a profit, which is the reward for taking risks. Profits are not self-generating; however, goods or services must be produced at a cost low enough to permit the firm to make a profit while charging customers a price they are willing and able to pay.

Profits, then, are the reward for accepting business risks and performing an economic service. They are needed to ensure the continuity of a business.

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

**Social Objective** As will be discussed further in Chapter 4, successful small businesses must have **social objectives**, which means helping various groups in the community, including customers, employees, suppliers, the government, and the community itself. Even small firms have a responsibility to protect the interest of all parties as well as to make a profit. Profit and social objectives are not necessarily incompatible.

**Growth Objective** Owners of small firms should be concerned with growth and should select a growth objective, which will depend on answers to questions such as: “Will I be satisfied for my business to remain small?,” “Do I want it to grow and challenge larger firms?,” and “Do I seek a profit that is only ‘satisfactory’, considering my effort and investment, or do I seek to maximize profits?”

### Need to Mesh Objectives

Personal and business objectives can be integrated in a small business. In fact, there is often a close connection between profitability, customer satisfaction, manager satisfaction, and nonfinancial rewards. Also there is an increased chance of success when the objectives of the business—service at a profit—are meshed with the owner’s personal objectives.

### Characteristics of Successful Entrepreneurs

The abilities and personal characteristics of the owner(s) exert a powerful influence on the success of a small company. Also, the methods and procedures adopted in a small firm should be designed not only to offset any personal deficiencies the owner may have but also to build on his or her strengths.



A recent study found that almost one-third of all U.S. millionaires are entrepreneurs or business owners. And 57 percent indicate that the most important factors leading to their success were “being honest with all people” and “being well disciplined.”<sup>22</sup> Another characteristic of successful entrepreneurs is persistence. For example, the National Federation of Independent Business found that 16 percent of new business owners had been in business before. In fact, nearly 10 percent of them had had six or more operations.<sup>23</sup> Finally, even though the year 2000 was not a very prosperous time in the United States, nearly 1 out of every 10 Americans (9.8 percent) tried to start a business during the year.<sup>24</sup>

Entrepreneurship is not limited to the United States. In fact, the United States ranks fourth in the world. The top 10 best countries for entrepreneurs in 2015 include

- |                  |                         |
|------------------|-------------------------|
| 1. New Zealand   | 6. United Kingdom       |
| 2. Australia     | 7. South Korea          |
| 3. Canada        | 8. France               |
| 4. United States | 9. Portugal             |
| 5. Ireland       | 10. Chile <sup>25</sup> |

From these and many other sources, we conclude that the characteristics of successful owners of small businesses are that they

- 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.
- Are dedicated to their businesses.
- Enter business as much by chance as by design.

### Desire Independence

As shown earlier in the chapter, those people who start small businesses seek independence and want to be free of outside control. They enjoy the freedom that comes from “doing their own thing” and making their own decisions—for better or for worse.

### Have a Strong Sense of Initiative

Owners of small businesses have a strong sense of initiative that gives them a desire to use their ideas, abilities, and aspirations to the greatest degree possible. They are able to conceive, plan, and carry to a successful conclusion ideas for a new product. This is not always true in a larger organization.

Another aspect of initiative usually seen in small business owners is their willingness to work long, hard hours to reach their goals. They tend to be capable, ambitious, persevering individuals.

### Are Motivated by Personal and Family Considerations

As shown earlier, small business owners are often motivated as much by personal and family considerations as by the profit motive. They start and operate their businesses to help their parents, children, and other family members. The flexibility afforded small business owners is a great advantage in planning family activities.

There now seems to be a trend toward children helping their parents—financially and otherwise—by putting them on their payroll. We will discuss this trend further in Chapter 2. This trend builds on the past practice of parents helping their children. As society enjoys longer healthier lives, many retirees are looking for new challenges and sometimes new careers.

### Expect Quick and Concrete Results

Small business owners expect quick and concrete results from their investment of time and capital. Instead of engaging in the long-range planning that is common in large businesses, they seek a quick return on their capital, and they become impatient and discouraged when these results are slow in coming.

### Are Able to React Quickly

Small businesses have an advantage over larger firms in that they can react more quickly to changes occurring both inside and outside the company. For example, one characteristic of a small business is its vulnerability to technological and environmental changes. Because the business is small, such changes have a great effect on its operations and profitability. A small business owner must therefore have the ability to react quickly. Also, we are experiencing a “fifth” migration to new regions. These are bedroom communities within commuting distance to large urban areas. Services follow these moves and create many needs such as house cleaning, day care, and transportation.

### Are Dedicated to Their Businesses

Small business owners tend to be fiercely dedicated to their companies. With so much time, energy, money, and emotions invested in it, they want to ensure that nothing harms their “baby.” Consequently, they have a zeal, devotion, and ardor often missing in managers of big companies.

### Enter Business as Much by Chance as by Design

An interesting characteristic of many small business owners is that they get into business as much by chance as by design. These are the owners who quite frequently ask for assistance in the form of management training and development. This type of individual differs sharply from those who attend college with the ambition to become professional managers and who gear their programs toward that end.

#### **Real-World Example 1.10**

For example, 17-year-old Levi Strauss emigrated from Bavaria to America in 1847. After peddling clothing and household items from door to door in New York for three years, he sailed by clipper ship to California with a load of denim to make tents for gold miners. There was little demand for tents but great demand for durable working clothes, so the ever-adaptable Strauss had a tailor make the unsold cloth into waist-high overalls, called them “Levi’s,” and was in business ([www.levistrauss.com](http://www.levistrauss.com)).<sup>26</sup> Levi Strauss announced in 2015 that it is pioneering practices to reduce use of energy, water, chemical and other materials in the apparel industry. With innovative action shared throughout the industry, Levi Strauss can help reduce environmental impact.

## What Leads to Success in Managing a Small Business?

Although it is difficult to determine precisely what leads to success in managing a small business, the following are some important factors:

- Serving an adequate and well-defined market for the product.
- Acquiring sufficient capital.
- Recruiting and using human resources effectively.
- Obtaining and using timely information.
- Coping effectively with government regulations.
- Having expertise in the field on the part of both the owner and the employees.
- Being flexible.

## Doing an Introspective Personal Analysis

Now that you have seen some characteristics of successful small business owners, do you think you have enough of those characteristics to be successful? The following personal evaluation will help you decide this important question. None of these items is more important than any other; rather, you need to determine whether the combination of qualities you have will help you succeed as a small business owner:

- Analyze your values.
- Analyze your mental abilities.
- Analyze your attitudes.

## Where Are the Opportunities for Small Business?

Up to this point, we have shown you the challenges of becoming an entrepreneur and explained the requirements for succeeding as the owner of a small business. Now it is time to explain what your opportunities are.

## What Are the Fastest-Growing Industries?

Most of the growing industries are dominated by small private companies. According to the SBA's Office of Advocacy ([www.sba.gov](http://www.sba.gov)), only construction and personnel/supply services tend to be dominated by larger businesses.

Professional and related occupations are expected to have 11.9 million job openings generated by 2018 closely followed by services at 7.6 million. The occupation with the fastest growth overall is health care. By 2022, there are expected to be over 10.5 million workers in health care not including physicians.<sup>27</sup> With advances in technology, many tasks are now performed by lower-paid workers such as assistants and aides.<sup>28</sup>

## Factors Affecting the Future of an Industry or a Business

Many changes are now occurring that will affect the future of an industry or business, and small business owners should study them intently in order to adjust to them. These changes can cause slow-growing industries to speed up or fast-growing ones to slow down. For instance, one recent study found that the more professional technicians or other "knowledge workers" an industry has, the greater the chance that it will create new jobs. The study defined such **high-knowledge industries** as those in which 40 percent or more of workers are high-knowledge workers.<sup>29</sup>

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



**FIGURE 1.3** |  
Examples of Factors  
Affecting Industry and  
Business Trends

1. *Economics*—gross national product (GNP), interest rates, inflation rates, stages of the business cycle, employment levels, size and characteristics of business firms and not-for-profit organizations, and opportunities in foreign markets.
2. *Technology*—artificial intelligence, thinking machines, laser beams, new energy sources, amount of spending for research and development, and issuance of patents and their protection.
3. *Lifestyle*—career expectations, consumer activism, health concerns, desire to upgrade education and climb the socioeconomic ladder, and need for psychological services.
4. *Political-legal*—antitrust regulations, environmental protection laws, foreign trade regulations, tax changes, immigration laws, child care legislation, and the attitude of governments and society toward the particular type of industry and business.
5. *Demographics*—population growth rate, age and regional shifts, ethnic moves and life expectancy, number and distribution of firms within the industry, and size and character of markets.

Another important reality to consider is that a change that provides an opportunity for one industry or business may pose a threat to others. For example, aging of the population may increase the need for retirement facilities but hurt industries supplying baby needs.

Figure 1.3 shows some selected examples of factors that affect various industries and businesses. These factors will be discussed in Chapters 5 and 6.

### Some Practical Ideas for Small Businesses

Recent Bureau of Labor Statistics figures indicate that around 71 percent of future employment in the fastest-growing industries (such as medical care, business services, and the environment) will likely come from small businesses—and these are areas where small firms are quite competitive. One reason for this is that entrepreneurs tend to be innovative and to develop new ideas. Some innovative ideas currently being developed, such as the following, could lead to the big businesses of tomorrow:

- Career counseling.
- Catering.
- Computer and office machine repair.
- Day care.
- Educational services and products.
- Financial planning.
- Home health care.
- Marketing, promotion, and public relations.
- Senior fitness and recreation.
- Specialized delivery services.

#### Real-World Example 1.11

WestChesterMenu.com is the key to finding a great meal in West Chester, Pennsylvania. It has online menus for every restaurant in the city. Customers choose the restaurant and meal they desire and place an order with <http://www.grubluk.com> which offers deliveries to at least fifty of these. The meal is ordered from the restaurant. A driver then picks it up, delivers it, and collects payments by cash, Visa, MasterCard, American Express, Discover, or Diner's Club.

## Some Areas of Concern for Small Business Owners

So far, we have indicated that opportunities abound for anyone with a good idea, the courage to take a chance and try something new, and some money to invest. That's what small business is all about. But, as shown in this chapter, the success of smaller firms tends to be limited by factors such as inadequate management, shortages of capital, government regulation and paperwork, and lack of proper recordkeeping. Two other concerns are poorly planned growth and the threat of failure.

### Poorly Planned Growth

Poorly planned growth appears to be a built-in obstacle facing many small businesses. Clearly, if the owners are incapable, inefficient, or lacking in initiative, their businesses may flounder and eventually fail, or if the owners are mediocre, their businesses remain small. However, if the owners are efficient and capable and their organizations succeed and grow, but in a poorly planned way, they risk losing the very things they seek from their companies.

For instance, as small businesses succeed, their owners may begin to feel trapped. Instead of feeling on top of the world, they feel like prisoners of long hours and hard work. Todd Logan, who owned and operated a publishing and trade show company, cites five core symptoms that entrepreneurs must understand and change if they are to deal with this syndrome:

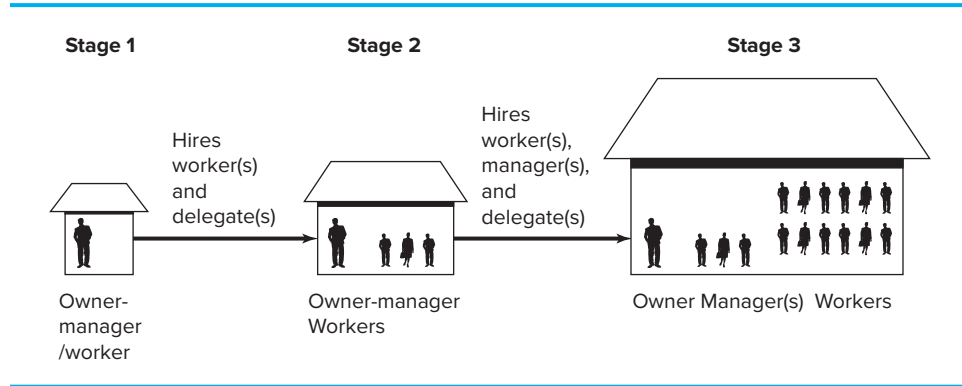
1. Despair over the loss of closeness in important personal relationships.
2. Unshakable anxiety despite accomplishments.
3. Anger toward family, employees, and customers.
4. Frustration that the lack of significant current progress is preventing forward movement.
5. The paradox itself: You own your business, yet you don't enjoy it.<sup>30</sup>

**Loss of Independence or Control** With growth, owners must please more people, including employees, customers, and the public. There are new problems, such as hiring and rewarding managers and supervising other people, exercising the very authority small business owners may resent in others.

Many otherwise creative entrepreneurs are poor managers. They can generate ideas and found the business but are unable to manage it on a day-to-day basis. If the firm becomes large enough to require outside capital for future success and growth, the owner may lose control over the company.

**Typical Growth Pattern** Historically, the ownership and management of small businesses have tended to follow a growth pattern similar to that shown in Figure 1.4. During stage 1, owners manage the business and do all the work. In stage 2, the owners still manage their companies but hire employees to help with routine and/or management activities. In stage 3, the owners hire managers to run the firms. The length of service of professional managers (as opposed to owner-managers) in small businesses tends to be relatively short; they move from one company to another as they progress upward in rank and earnings. Often, owners must give managers a financial interest in the business to hold them. Thus, the business takes on the form, the characteristics, and many of the problems of a big business. If entrepreneurs plan poorly, and fail to foresee these growth patterns, they may run into trouble.

**FIGURE 1.4** |  
Stages in the  
Development of a  
Small Business



A **discontinuance** is a voluntary decision to terminate a business.

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

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

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

### Threat of Failure

The threat of failure and discontinuance is a reality for many small businesses. A **discontinuance** is a voluntary decision to quit. A discontinuance may result from any of several factors, including health, changes in family situation, and the apparent advantages of working for some else. A **failure** results from inability to make a go of the business; things just do not work out as planned. There are two types of failure: (1) **formal failures**, which end up in court with some kind of loss to the creditors, and (2) **personal (informal) failures**, where the owner cannot make it financially and so voluntarily calls it quits. Personal failures are far more numerous than formal ones. People put their money, time, and effort into a business only to see losses wipe out the investment. Creditors usually do not suffer, as the owners tend to absorb the losses. The owners are the ones who pack up, close the door, and say, “That’s it!”

Studies of the behavior of people who choose careers in small business show that, all too often, discontinuance or failure results from one or more of the following weaknesses: (1) too much was left to chance, (2) too many decisions were based on a hunch or intuition, (3) crucial obstacles went unnoticed for too long, (4) the amount of time and/or physical effort demanded of the small business manager was not recognized and/or planned for, and (5) the amount of capital needed was either not estimated or grossly underestimated.

Underestimating the difficulty of business startups is one of the most common roads to disaster. Some say failure is usually caused by:

- lack of managerial experience
- lack of financial backing
- poor location
- unexpected growth
- communication skills

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

One source to help avoid startup disaster is the National Business Incubation Association (NBIA). **Business Incubators** nurture young firms and help them to survive and grow during the startup period when they are most vulnerable. Hands-on management assistance, access to financing, and orchestrated exposure to critical business or technical support services are provided. Incubators offer entrepreneurial firms shared office services, access to equipment, flexible leases, and expandable space—all under one roof.

The main goal of an incubation program is to produce successful graduates, that is, businesses that are financially viable and freestanding when they leave the incubator. While



Courtesy of Jane Byrd

Tom Segwald, Director, Center for Entrepreneurial Excellence.

the usual incubation period is two to three years, 30 percent of incubator clients typically graduate each year.

In 2015, there were about 2,400 business incubators in 60 nations: the line between accelerators and incubators is blurred, but it is safe to say the numbers are increasing.<sup>31</sup> Incubators are sponsored by academic institutions, government, economic development organizations, and for-profit entities ([www.niba.org](http://www.niba.org)).

The Center for Entrepreneurial Excellence ([www.ceeibic.org](http://www.ceeibic.org)) operates in a former school building. The classrooms are perfect for startup businesses and large meeting rooms. It is a community partnership with the city, county, and chamber of commerce. It provides secretarial support, office equipment, on-premises business consulting, classes and seminars, conference and classrooms, shipping services, and graphic design with flexible rental space and controlled overhead.<sup>32</sup>

While looking for data on failure rates and trends in failure rates, the latest available information seems to indicate a decrease. The data available is sketchy at best due to the lack of consistent collection vehicles. For example, many hobbyists, mom-and-pop ventures, and other small undertakings open and close every day without any documentation for tracking their success or failure rate. Many fail to consult with the Small Business Administration, obtain licensing, or report results to the Internal Revenue Service, which makes tracking the nonsurviving entities next to impossible.

## What You Should Have Learned

1. Defining *small business* is difficult because the definition of smallness varies widely. In general, a small business is independently owned and operated and is not dominant in its field of operation. It is difficult to draw a clear distinction between a *small business* and an *entrepreneurial venture*, as the distinction depends on the intentions of the owners. If they start a small business and want it to stay small, it is a small business. If, on the other hand, they start small but plan to grow big, it is an entrepreneurial venture. Although small businesses generate only 12 percent of the total receipts each year, according to the IRS, around 96 percent of U.S. businesses are small, and firms with fewer than 500 employees account for 80 percent of existing jobs.
2. Small firms differ from larger ones in many ways, but their unique contributions include (a) flexibility and room for innovation; (b) the ability to maintain close relationships with customers and the community; (c) the competition they provide, which forces larger companies to remain competitive; (d) the opportunity they give employees to gain experience in many areas; (e) the challenge and freedom they offer to risk takers; (f) the employment opportunities they generate; and (g) the job satisfaction they provide.
3. Some current problems that plague small companies more than larger ones—and limit their development—are (a) inadequate financing, (b) inadequate management (especially as the firm grows), and (c) burdensome government regulation and paperwork.
4. Some current trends challenging small businesses are (a) exploding technology, (b) occupational and industry shifts, and (c) the move to global operations.
5. People start businesses for many personal and business reasons. While income is an important



- consideration, the primary reason is to achieve independence. The need to exercise initiative and creativity also leads entrepreneurs to take the risk involved in striking out on their own. Many small business owners are also motivated by family considerations, such as taking over a family business to permit parents to retire or starting a family business to have more time with their families. Also, some people start businesses chiefly to provide a product or service not readily available elsewhere. Finally, some entrepreneurs start businesses to achieve business objectives such as providing services to their customers; making a profit; providing social benefits to society; and growing into large, profitable organizations.
6. The characteristics most typical of the more successful business owners are that they (a) desire independence, (b) have a strong sense of enterprise, (c) tend to be motivated by personal and family considerations, (d) expect quick and concrete results, (e) are able to react quickly to change, (f) are dedicated to their businesses, and (g) often enter business as much by chance as by design.
7. There are many opportunities for prospective small business owners, especially in eating and drinking establishments, offices of health practitioners, and nursing and personal care facilities. The best opportunities are found in small firms, limited in scope, that involve long, hard hours working to satisfy basic human needs.
8. Poorly planned growth and the threat of failure should concern small business owners. Failure to grow can mean the death of a business, but poorly planned growth and the failure to foresee the stages of growth a typical company may go through can also pose a real problem.
- Some businesses discontinue for health, family, or other personal reasons, while others fail. Although relatively few failures are formal failures, personal failures resulting from unprofitability or general discouragement can be just as devastating for small business owners.

## Key Terms

business incubators	24	formal failures	24	profit	18
discontinuance	24	high-knowledge		profit motive	18
downsizing		industries	21	reengineering	14
(rightsizing)	14	micro-business	9	reinvention	14
entrepreneur	9	objectives	17	small business	9
entrepreneurial venture	9	personal (informal)		small business owner	9
failure	24	failures	24	social objectives	18

## Questions for Discussion

1. Do you agree that this is an interesting time to be studying small business? Why are you doing so?
2. All of us have had personal experiences with small business—as an owner, employee, friend, or relative of an owner, or in other relationships. Explain one or more such experience(s) you have recently had.
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?
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?
5. How do you explain the growing interest young people have in small business? Relate this to your personal small business experience.
6. What are the unique contributions of small businesses? Give examples of each from your own experience of owning or working in a small business or from small businesses that you patronize.

7. What are some problems facing small businesses? Again, give example from your experience.
8. Discuss the four personal objectives that people seek when starting a new business.
9. Explain the interrelationship between the *service* and *profit* objectives.
10. How does success cause concern for small businesses? Can you give examples from your experience or suggest ways to avoid the problems of growth?

## Case 1.1

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### The Big Wash

Henry Gibson, a 68-year-old retired file clerk, enjoyed sitting on his front porch on Belmont Street in Washington, DC, on summer evenings watching his neighbors go by. But the sight of them lugging their laundry to two coin-operated laundries a half-mile on each side of him—one uphill, one downhill—caused him distress. With no business education or experience, nevertheless he had an idea: Why not start a laundry in the neighborhood?

Gibson knew he could not do this alone, especially raising the \$250,000 needed to set up a good-sized coin laundry business. So he sought the help of Reuben McCornack, an adviser with Hope Housing, a nonprofit group located in the same block. Together they formed the Belmont Investment Group (BIG) and started selling 300 shares at \$100 per share. Many investors came from the Community of Hope Church, where Gibson is an usher. Two shareholders sing in its choir. Some bought only one share, while others bought up to 50. (One neighbor invested his life's savings in 50 shares.)

Once the two men had sold 600 shares (\$60,000), McCornack raised \$60,000 in grants from seven foundations. With this backing, the two men were able to get a loan from a local bank and a District of Columbia government agency for a total of \$300,000.

The Big Wash (the “Big” comes from the initials of their investment group) opened during the summer of 1995 in a well-designed and refurbished building on the same block where Gibson lives. (Even with its inner-city location, but without bars or a roll-down iron fence, the place had not been robbed or vandalized by early 1998.) The laundry has much going in its favor, especially the official criterion for success, according to the Coin Laundry Association: a densely populated neighborhood, with lots of kids and renters.

With 30 washers, 28 dryers, and 8 staff members—four of whom are paid attendants—operating from 7 A.M. to midnight, Big Wash usually grosses over \$20,000 a month. This puts it in the top ranks of all the 35,000 self-service coin-operated laundries in the United States, which gross between \$15,000 and \$300,000 a year.

Since its opening in 1995, each of the laundry's shareholders has received \$175 back on his or her \$100 investment. For most of them, this is the first experience receiving dividend checks, which are issued quarterly by the investment group.

#### Questions

1. Evaluate Henry Gibson's approach to starting a new business.
2. Could there have been another source of funding? Explain.
3. How do you explain the fact that Big Wash has not been robbed?

Source: Prepared by Leon C. Megginson from various sources, including “Odds and Ends: It Took a Laundry to Clean the Area,” *Mobile (Alabama) Register*, February 13, 1998, p. 2A. Used by permission of Newhouse News Service.

## Case 1.2

### The American Dream

Ugo and Gina Benincasa own and operate a small upscale hotel and restaurant in Lexington, Virginia. Both immigrated to the United States from Italy in the early 1960s. Several years ago, Ugo renovated a historic building on Main Street in Lexington and opened an Italian restaurant. After a few years he and his wife had the opportunity to purchase the old abandoned livery stable across the street. The old circa 1887 structure was refurbished and converted into a small upscale hotel with nine rooms and three suites. Interestingly, the original builders of the livery were also immigrants; they were from Ireland.



Courtesy of Cori Byrd Lowe

The restaurant, outdoor café, and lounge are housed in the rear of the hotel overlooking an open courtyard with a beautiful overhead vista of the local mountains. It also has a large banquet room for special occasions and meetings. Frankie Benincasa, who is Ugo and Gina's son, is the head chef. The restaurant features lunch and dinner seven days a week and has a varied menu of appetizers, soups, salads, and entrées to satisfy all tastes. A continental breakfast is served to guests of the Inn.

The Sheridan Livery Inn is truly the culmination of the American Dream. It is a successful small business that is family owned and operated. The Benincasa family work hard and give meaning to the phrase "24/7." As natives of Italy, they have felt the effects of cultural diversity. Mr. Benincasa attributes his success to hard work and a policy of political uninvolvedness.

It is located in the heart of the historic district and within walking distance of Washington and Lee University and Virginia Military Institute.

Mr. Benincasa believes that small business is a "spider web" and can fall down at the whim of big business. He also believes that the American Dream is diminishing.

**Questions**

1. Do you believe in the American Dream? Why? Or Why not?
2. Do you think ethnicity is still a problem for small business owners in the mainstream? Why? Or Why not?

Source: Interviews and correspondence with the Benincasa family, October 2007.

## Experientials

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1. Ask your professor to plan a trip to the nearest business incubator. If you do not have one nearby, go to the chamber of commerce and inquire about startup facilities.
2. Talk to your fellow students and see what services are needed on your campus.
3. In your opinion, who is the greatest entrepreneur ever? Why?
4. Name top 10 U.S. entrepreneurs and their achievements.



# Family–Owned Businesses

*Time present and time past  
Are perhaps both contained in time future,  
And time future contained in time past.*

—T. S. Eliot

*Either you shape the future or the future will shape you.*

—John W. Teets, chairman and CEO, Dial Corporation

## Learning Objectives

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*After studying the material in this chapter, you should be able to:*

1. Discuss some problems involved in organizing and operating small family-owned businesses.
2. Explain how family relationships can affect the business.
3. Describe the activities needed to prepare the next generation to enter the firm.
4. Discuss the importance and method of preparing for management succession.
5. Discuss the need for tax and estate planning in small companies.

## PROFILE



Courtesy of Reuben Feuerborn

### Farris-Feuerborn Memorial Chapel

Reuben Feuerborn is a third-generation funeral director /embalmer. If you ask him why he chose this particular career, he will tell you that he has “just always liked the service provided to families.” Mr. Feuerborn assumed the leadership position in his family business located in Anderson County, Kansas, on January 1, 2007, after joining his father in 1999. Reuben has three children and if one of them should follow in his footsteps, he or she would become the fourth generation to work in the business.

The history of Feuerborn dates prior to 1900, with E. E. Varner who died in 1906. He was the undertaker in the county whose business was purchased by brothers J. B. and O. G. Farris in January 1907. J. B. Farris took the examination and received his license after buying the business. J. B. and O. G. continued until 1910, when J. B. moved to the county seat in Garnett, Kansas, and purchased the R. L. Adams Undertaking Company from R. L. Adams, who had owned and operated the business since May 11, 1900, when he had purchased it from J. W. Lewis.

O. G. Farris continued the business in Colony and was later joined in business by his son, Eugene L. Farris, and his daughter, Frances Farris. In 1924, Marie Feuerborn began working for the Farris family in their home and later in the funeral home. Her husband Reuben began working for the funeral home in 1941 as funeral director and embalmer. After O. G.’s death, his son, Eugene, continued with the business in Colony until his death in 1965, when the Colony business was purchased by R. W. Farris, son of J. B. Farris, and consolidated with the Garnett business.

In 1975, the corporation consisting of the Garnett and Colony businesses was purchased by Dudley Reuben

and Carol Ann Feuerborn. Today the business is an S corporation and still operates both of the facilities. In 1995, a new funeral home was built to replace the old one in Garnett; in 1998, the same was done in Colony. The company employs three full-time employees; two are licensed embalmers and funeral directors. A third site was added in Moran, Kansas, in July 2005.

Preneed burial policies, which are prefunded funeral plans, are sold at all locations. In October 2011, Mr. Feuerborn estimated that about 35–40 percent of the funerals that he provided are prefunded to some extent.

Regulatory compliance is always an issue in any business—large or small—and funeral homes are no exception. In addition to all zoning, business license, and other state and local requirements, the premises of funeral homes are regularly inspected by OSHA and the State Board of Mortuary Arts. The board also inspects prefunded policies, of which Kansas state law requires that each policy be placed in a separate account. The board regulates the renewal of professional licensing for funeral directors, funeral establishments, and embalmers. In turn, the Federal Trade Commission requires all funeral homes to provide a “general price list,” which includes all available services along with their itemized prices. A copy of this list must be provided to anyone who asks for it or before any funeral arrangements are made.

When asked about ethical issues in the profession, Mr. Feuerborn said, “Nearly every issue is an ethical one that some unscrupulous undertaker has violated at some point in time. There are no questionable issues if you treat every family as if they were your own.” Dudley Feuerborn states that today’s funerals are “events” and funeral directors fall into the category of event planners specializing in care giving.



Courtesy of Leon Megginson

*Reuben and Dudley (3) 1944.*

Courtesy of Leon Megginson

*Dudley and Reuben (3) 1977.*

Courtesy of Leon Megginson

*Reuben and Peyton (3) 2000.*

Currently, the average cost for a funeral, according to the National Association of Funeral Directors (NAFD) is \$13,000 including the burial fee.<sup>1</sup> If cremation is chosen, then you may subtract another few hundred dollars. NAFD reported that there were 19,391 funeral homes in operation in 2015. Approximately 86 percent of those were privately owned by families, such as the Feuerborn family, or individuals; and 14 percent were owned by publicly-traded corporations (nfa.org).<sup>2</sup>

According to the American Board of Funeral Service Education, approximately 51 percent of 2003 funeral service graduates were women, up from 14.5 percent in 1985, with an average age in the late twenties, and two-thirds of all graduates had no prior family relationships in funeral services. The American Board of Funeral Service Education tracks statistics for the 48 accredited colleges and 5 other colleges that are currently applying for accreditation in the United States that offer degrees in mortuary science. Statistics indicate that more students are enrolled in mortuary science than ever before.

Gordon Bigelow, executive director of the American Board of Funeral Service Education in Brunswick, Maine, does not know why enrollment is increasing, but he feels that it is probably due to the fact that there are more job openings than professionals to fill them. He said, "Most students are surprised to find that over 90 percent of a funeral director's time is spent working with the living; less than 10 percent is actual preparation time with the dead."

Sources: Author's conversation and correspondence with Reuben Feuerborn.

The Profile of the Farris-Feuerborn Memorial Chapel is a good illustration of a successful family business that has survived several generations. Not only has the business survived, but it also maintains its original purpose and market niche. The world's oldest family business closed in 2006, after operating for 1,400 years. Kongo Gumi temple builders closed because of excess debt and unfavorable business climate. This family business was successful because, instead of handing down to the oldest son, the reins were given to the one that exhibited the best health, responsibility, and job talent. This selective method worked for 14 centuries and 40 generations.<sup>3</sup> The lesson here is to pick a stable industry and create flexible succession policies.

## Role of the Family—Owned Business

The Conway Center for Family Business estimates that family-owned businesses account for 80–90 percent of North American business enterprises. These account for 64 percent of U.S. gross domestic product, generate 62 percent of U.S. employment, and account for 78 percent of new job creation.

Also, more than 30 percent of these small companies survive to the second generation of family members. Only 12 percent survive to the third generation, and 3 percent to the fourth generation and beyond.<sup>4</sup>

More than 46 million Americans work in home-based businesses, and while family-owned businesses provide a living and personal satisfaction for many people, they must be managed just like any other small firms if they are to succeed.

Family businesses are the backbone of America, but they can also be a source of unresolved family tensions and conflicts, which can create obstacles to achieving even the most basic business goals. When close relatives work together, emotions often interfere with business decisions. Also, unique problems, such as the departure of the founder-owner, develop in family-owned firms. When more than one family member is involved, emotions and differing value systems can cause conflicts between members. In fact, most people-related challenges faced by family businesses—small or large—result from the interactions of business necessity with family values and relationships.<sup>5</sup>

Occasionally, family-run businesses get a bad rap that is totally underserved. A family member may receive a lot of bad publicity for various reasons, and the public tends to attach a negative feeling toward the family name attached to the small business. Or the company may be part of a scandal that tends to tarnish the family as a whole.

## The Family and the Business

All businesses require a well-thought-out and appropriate mission statement (Chapter 6) for successful operations. Families who own and operate family businesses need a family mission statement to provide direction for coping with the 24/7 necessities of operation. As business occurs, we tend to get caught up in business activities and delay attention to our families while concentrating on the financial needs. In an article in *USA Today*, M. R. della Cava states that the family should put in writing a mission statement for those family members who own and operate a small business. He acknowledges that it is important that the children be included in making decisions and setting goals. When the entire family is included, they become a family again. Family discussions also help parents stay in touch with each other and not lose sight of family values. For the family mission example, he cited the Franklin Covey website. This site has suggestions such as

Start from a family foundation of trust and openness, where everyone feels welcome to participate.



Once everyone agrees on a final draft that truly summarizes the family's values and vision, make copies available to all.

Avoid rushing your family, favoring one's agenda, or forgetting your purpose.<sup>6</sup>

We usually think of family businesses as being started, owned, and operated by the parents, with children helping out and later taking over. This has been the normal pattern, as many examples in the text will show.

Now, though, two contrary trends are developing. First, many young people are going into business for themselves—and tapping their parents for funds to finance their ventures. In return, the children often give one or both parents an executive position in the company, including a seat on the company's board. In fact, the average age of those involved in home-based businesses is 48.<sup>7</sup> Also, many retirees want to work part time for their children's businesses, without assuming a lot of responsibility.

### Real-World Example 2.1

For example, the two brothers who run the Levy Organization in Chicago employ their mother as a hostess at one of their restaurants. They even named a deli after her and use her recipes. According to Mark Levy, the company's vice chairman, "My mom is a very integral part of our business."

On her birthday in 2011, her sons said, "The heart that beats behind our passion for great food and warm hospitality is our Company Mom Eadie Levy. More than 30 years ago she brought her family recipes and shared her knack for welcoming every guest with open arms and a big heart. She has been an inspiration to all of us at Levy Restaurants from the very first day, and she continues to share her love of food and people with everyone she meets." As a mother, grandmother, and great grandmother, Eadie believes that her proudest accomplishment is her sons' "entrepreneurialism and creativity in making Levy Restaurants ([www.restaurants.com](http://www.restaurants.com)) a successful company."<sup>8</sup>

Another trend is the large number of spouses doing business together. This trend is indicated by a recent survey that shows that 18 percent of all U.S. businesses are equally owned by both men and women.<sup>9</sup>

Actually about one-third of all family businesses are husband and wife teams. These are referred to as **copreneurs**. One group recommends that before copreneurs start their business they should consider the following:

- Jot down what each hopes to accomplish and see if their goals are compatible.
- Find trusted employees or advisors to help settle disputes.
- Consider talking to a marriage counselor about how this will affect their relationship.
- Let each spouse take the role he or she fills best.
- Schedule personal time.
- Don't hold grudges.
- Don't have one spouse work for another as an employee.
- Don't let business arguments get personal.
- Don't make major decisions without consulting your spouse.
- Don't start a business in the first place unless the relationship is strong.<sup>10</sup>

**Copreneurs** are a husband and wife team that own and operate a business.

### Real-World Example 2.2

Jim and Eva Sisler satisfied their desire to see new places after their children were grown and before they retired. Jim enrolled in a six-week course in truck driver training and suggested Eva do the same. Last year they earned over \$100,000 while seeing new places. Asked about spending so much time so closely together, Jim replied, “We know how to get on each others nerves, how to get off—and when.”<sup>11</sup>

Willie Foster, inspired by a desire to make biscuits that tasted as good as his aunt’s, opened the very successful Biscuit King Café. When phenomenal sales growth necessitated adding another person, Willie’s wife, Nancy, joined him in the operation. The Fosters say the key to their success was starting small and working hard.

The second business presented in the example is the kind of family business we traditionally think of: a married couple running a small neighborhood store, toiling long hours for a modest living. Now, though, a new breed of husband-and-wife entrepreneurs has emerged. They typically run a service enterprise out of their home using computers, modems, and phone lines—even websites—as the tools of their trade. Figure 2.1 offers some tips on how to get along with your spouse while running a joint business.

A word of caution is needed at this point. While most modern marriages are built on a consensus model, with the assumption that neither spouse can make important decisions unilaterally, this is not practical in a business. Instead, one person should be clearly in charge, at least in a given management area, especially if other employees are involved. In business, a clearly defined chain of command is needed and expected.<sup>12</sup>

Although ownership of a small firm is usually controlled by one or a few family members, many others in the larger family are often involved. The spouse and children are vitally interested because the business is usually the source of their livelihood. In addition, some relatives may be employed by the firm, some may have investments in it, and some may perform various services for it. Involvement of family members should always be based on sound business practices.

The founder-owner may set any one or more of a variety of goals, such as adequate income and perpetuation of the business, high sales, service to the



Source: © 1989 Doug Blackwell, Blackwell Cartoon Service. Used by permission.

**FIGURE 2.1** | Making It in Business with Your Spouse

Following are some tips for spouses to follow in running a jointly owned business:

- Don't be blinded by romance; follow all the rules.
- Define each person's role and accentuate each other's talents.
- Don't ignore business conflicts in an attempt to spare a personal relationship.
- Agree to disagree—set the ground rules.
- Be clear and specific about your expectations of each other.
- Set aside family time, and stick to it.
- Set up a system for recognizing and rewarding hard work done by family members.

Source: Adapted from Paula Ancona, “Define Partners’ Role in Family-Run Business,” *Mobile (Alabama) Register*, June 6, 1993, p. 4-F. Reprinted by permission of Newspaper Enterprise Association, Inc.

community, and production of an unusual product, just to name a few. This variety of goals exists in all companies, but in family firms strong family ties can improve the chances of consensus and support, while dissension can lead to disagreement and/or disruption of activities.

According to Leslie Dashaw, founder of the Human Side of Enterprise, an organizational development consulting firm, more and more women are taking over the family business. Historically, leadership has passed from the father to the son, but that is changing.

Patricia Estess suggests that daughters who are interested in leading the family business should:

- Express interest.
- Gain experience outside of the family business.
- Learn from the senior generation.
- Be sensitive to the parent.
- Get involved and ask questions.
- Meet with women who lead family businesses.
- Define herself.
- Develop a company vision.<sup>13</sup>

Think about Reuben Feuerborn's oldest child (see Profile), Peyton. Reuben has no issues whatsoever with the idea that she may someday become a mortician/funeral director. Reuben says, "It's the talent and interest in people that is so important, if Peyton wants to do it, we'll have no problem including her in our family business."

Another interesting father-daughter story is that of Larry Strassner and Lauren Russell. After retirement he agreed to help his daughter start a custom-made furniture business—Russell and McKenna, Inc. Mrs. Russell says it works because she and her father are family and therefore have a similar temperament. They talk business all the time, "There is really no off switch; we're workaholics."<sup>14</sup>

## Family Interactions

Usually the founder—or a close descendant—is the head of a small business. Relatives may be placed in high positions in the company, while other positions are filled by non-family members. In some cases, it is expected that the next head of the firm will be a family member and other members will move up through the ranks, according to their position in the family, as the following example illustrates.

### Real-World Example 2.3

Asplundh Tree Expert Company ([www.asplundh.com](http://www.asplundh.com)) is such a business. Asplundh defines itself as "a bunch of tree cutters." That may be true, but this "bunch" now operates in all 50 states and eight foreign countries. In 2015, Asplundh's website stated, "A family-owned and operated corporation head quartered in Philadelphia, Pennsylvania, Asplundh has grown to employ over 30,000 service professionals throughout the United States, Canada, Australia, and New Zealand." Outsourcing has enabled Asplundh to remain a family business since 1928. There are 65 members in the fourth generation, and a few will work in the company and help carry on the family work. When asked why they do not go public, Chris Asplundh replied, "Then we'd just have money—that isn't what this family is about."<sup>15</sup> In 2018, Asplundh will celebrate its 90th anniversary.