

ELEVENTH EDITION

CANADIAN ENTREPRENEURSHIP AND SMALL BUSINESS MANAGEMENT

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**Canadian Entrepreneurship & Small Business Management
Eleventh Edition**

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Dedication

To my wonderful son Jack. You have helped me more that you will ever be able to understand. I love you always.

Peter Mombourquette

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Preface

Canadian Entrepreneurship & Small Business Management, eleventh edition, is the result of many years of teaching entrepreneurship business classes at the college and university levels; of starting and managing several successful small businesses; of working closely with numerous owners of small businesses in a consulting role; and, of course, of having experience with all the previous successful editions. This edition builds on the changes in the previous edition, with an increased emphasis on being current, generating and maintaining student interest in the subject matter, and improving academic rigour. All changes were made while staying true to the book's vision of being easy to follow and absorbing.

To accomplish these sometimes diverse aims, the text draws on theory from the fields of entrepreneurship, small business management, and the major functional areas of business, including management, marketing, accounting, and finance. The text supports theory with hundreds of real-life

business examples featured in boxes and opening profiles. These features have been carefully selected to reflect the diversity of Canada and include a mix of both young, inspiring entrepreneurs and experienced, high-profile business owners. In addition, many boxes have become cases with thought-provoking discussion questions to generate student interest in the subject matter. The chapters now include over 500 additional in-text examples about current business owners, trends in small business, and emerging topics in entrepreneurship.

The book is supported by numerous end-of-chapter cases that illustrate the small business management concepts discussed in the text. These concepts are stated at the beginning of each case in the Instructor's Manual to aid in teaching. Each case proceeds in a logical order from start-up of the business, through management of the existing business, and finally to planning for the future.

WHAT'S NEW IN THIS EDITION

The eleventh edition introduces several improvements to the previous editions based on professor and student feedback. Specifically, this edition includes the following:

Chapter 1: The Role of Entrepreneurship and Small Business in Canada

- Enhanced discussion of the benefits of studying small business and entrepreneurship
- Enhanced discussion of young and immigrant entrepreneurs, including exciting examples and in-chapter cases
- Additional facts and figures on Canadian entrepreneurship and why young people would benefit from starting a business.
- New and revised in-chapter cases and examples on:
 - New chapter opening Small Business Profile: Jay Dingwall, Famous Folks
 - New in-chapter case: Peace by Chocolate started by the Hadhad family, Syrian refugees to Canada

- New in-chapter case: Chic Marie, a Canadian online clothing rental business
- Young Canadian social entrepreneurs
- Ryan Holmes & HootSuite.com

Chapter 2: The Small Business Decision

- Enhanced discussion of the advantages and disadvantages of entrepreneurship, including the inclusion of many new and exciting examples to support the theory in the text.
- Enhanced discussion on the small business decision.
- New and revised in-chapter cases on:
 - New chapter opening Small Business Profile: Xavier Peich and Gabriel Alberola, SmartHalo
 - New in-chapter case: Tulip, an online company that is hoping to transform and save retail, as well as its founder Ali Asaria
 - New in-chapter case: Poppy & Peonies, a direct sales handbag company
 - Updated case on Mompreneurs

Chapter 3: Evaluation of a Business Opportunity

- New and enhanced information on idea generation
- Enhanced information on opportunity assessment
- Discussion and in-chapter case on replacing traditional market research with crowdfunding.
- New and revised in-chapter cases and examples:
 - New chapter opening Small Business Profile: David Tao and Jayden Li, Tapplock
 - New in-chapter case: fantasy sports and fan-controlled football
 - New case on replacing market research with crowdfunding
 - Updated case on Gord Dickie and his web company goalline.ca

Chapter 4: Organizing a Business—The Business Plan

- New information on the importance of business planning
- Discussion and in-chapter case on the Lean Start-up
- New and revised in-chapter cases and examples:
 - New chapter opening Small Business Profile: Michele Romanow, young serial entrepreneur and her latest business Clearbanc, a FinTech company
 - Lean Startup and the advantages and disadvantages
 - Alyssa Furtado and Ratehub, an online company that assists people in finding competitive mortgage and insurance rates
 - Updates on Notable.ca and its planning strategy
 - Shockbox, a concussion sensor for hockey and football helmets

Chapter 5: Buying a Business and Franchising

- Enhanced discussion on buying a business and franchising as a means of becoming an entrepreneur
- New and expanded information on evaluating franchise opportunities

- New and revised in-chapter cases and examples:
 - New in-chapter case: Chris Guillemet and Boris Martin and Velofix, the mobile bicycle-repair franchise they started and are expanding globally after only a few short years in business
 - New in-chapter case: Carmelo Marsala and Spray-Net, the innovative home-painting company that he is franchising across Canada
 - Trends in franchising
 - Unhappyfranchisee.com and A&W restaurants

Chapter 6: Financing the Small Business

- New information on sources of financing and types of financing used by small business
- New information on crowdfunding, including how to create a successful crowdfunding campaign, and how to avoid common mistakes
- New information on angel investors and angel organizations
- Significantly increased coverage of bootstrap financing
- Introduction of FinTech, financial companies that operate online to compete with banks. We look at what it means to small business when FinTech companies are offering financing and services at lower costs
- New information on government programs aimed at youth startups
- Significantly increased the number of in-chapter examples of young entrepreneurs and how they successfully raised money
- New and revised in-chapter cases and examples on:
 - Creating a successful crowdfunding campaign
 - Next steps after a successful crowdfunding campaign
 - Qasim Mohammad's choice to use bootstrap financing for his customer advocacy business
 - The willingness of the chartered banks to lend money to entrepreneurs
 - FinTech and entrepreneurs

Chapter 7: Marketing Management

- Enhancements to the sections on market planning
- Increased coverage of customer profiles, target marketing, and customer-relationship management.

- New and revised in-chapter cases and examples on:
 - Spin Master and their success using innovative marketing and public relations
 - New case on Indigenous entrepreneur Mark Marsolais Nahwegahbow and his company Birch Bark Coffee
 - Updates to the case on Leonard Asper and target marketing

Chapter 8: Managing the Marketing Mix

- Enhanced coverage of all aspects of the marketing mix
- Introduced the concept and included discussion of “influencers” in marketing for small businesses
- Increased the amount of information on promotions for small business, beginning with an emphasis on traditional marketing and extending to Internet and digital marketing
- Expanded information on direct selling or peer-to-peer sales
- New information on the use of digital marketing and marketing using social media
- Increased coverage of Facebook, YouTube, Instagram, and Pinterest in marketing a business, including the use of Snapchat and dating apps such as Tinder
- New information on using mobile devices to market a business
- New information and examples on guerrilla marketing and public relations
- Introduced many new in-text examples of successful entrepreneurs and their marketing ideas
- New and revised in-chapter cases and examples on:
 - New chapter opening Small Business Profile: Christian Lunny and Aaron Wojnowski who have created a very successful music app, Musi, with virtually no investment of money
 - New in-chapter case: Indigenous entrepreneur Patrice Mousseau and her business, Satya
 - New case on social media guerrilla marketing
 - New information on impact of appearing on *Dragons’ Den* for small business owners

Chapter 9: Financial Management

- New information on bootstrap financing
- New in-text examples supporting the theories discussed in the text

- New and revised in-chapter cases on:
 - New in-chapter case: bootstrapping as young entrepreneurs with limited resources grow their candy business
 - New in-chapter case: Glow Promotions and the importance of controlling costs and managing finances

Chapter 10: Operations Management

- New information on how entrepreneurs can use bootstrapping techniques in operation management
- New information on creating retail locations that are both functional and attractive, with brand new information on window displays
- New in-chapter case: Robin Godin, his family business Godin Guitars, and their manufacturing process
- New in-text examples

Chapter 11: Human Resources Management

- New information on the pending labour crisis in Canada and its impact on small business owners
- Enhanced information on human resources planning
- New information on the use of social media and human resources management
- New information on company culture, as well as leadership, and its importance in building a successful company
- New and revised in-chapter cases on:
 - New chapter opening Small Business Profile: Jason Tafler, founder of Unyte, a company that focuses on helping people reach their health goals through meditation
 - New in-chapter case: Chris and Rebecca Troels-tra and their company AvenueHQ, which offers flexible work schedules and a strong company culture in their efforts to recruit employees and build a successful organization
 - New in-chapter case: Mandy Rennehan and her company Freschco’s employee screening, orientation, and culture
 - New in-chapter case: entrepreneur Nikolai Bratkovski and the importance of hiring properly, and creating a winning team of employees and a successful organizational culture

- Use of LinkedIn and employee recruitment
- Purdy's Chocolates and building employee loyalty
- New information in the in-chapter case of bringing pets to work as a motivational strategy

Chapter 12: Management Help: Mentors, Boards of Advisors or Directors, and Tax Assistance

- New information on mentors and their importance to young entrepreneurs
- New information on boards of directors and boards of advisors
- New information on establishing boards and maintaining relationships
- New and revised in-chapter cases on:
 - New chapter opening Small Business Profile: Devon Brooks and her new company Sphere, which connects coaches/mentors with people
 - Updated in-chapter case on establishing a board of advisors
 - Updated case: Victoria Sopik and Jennifer Nashmi of Kids & Company

Chapter 13: Managing Growth

- New information on the importance of growth in small and medium-sized businesses
- Enhanced information on growth strategies and planning for growth
 - New chapter opening Small Business Profile: Chris Webb and Victoria Foulger and their business, Pavia, an illustration of how growth can

allow entrepreneurs to run a more sustainable business

- Updated information on BeyondtheRack.com, a Canadian flash retailer that enjoyed significant growth but was plagued with problems associated with growth
- Updated information on Enviro Paving, a company seeking growth by franchising—the company repaves driveways with recycled rubber

Chapter 14: Managing the Transfer of the Business

- New information and statistics on succession planning and family-owned businesses in Canada
- New information on creating a successful succession plan
- New information on successfully selling a business
- New and revised in-chapter cases on:
 - New chapter opening Small Business Profile: Dani Reiss and Canada Goose, illustrating the progression of a company from a family business to one pursuing an exit strategy to facilitate growth
 - Updated information on harvesting strategies

This text remains appropriate for any entrepreneurship or small business management class at the college or university undergraduate or graduate level. It can also be adapted easily to continuing education classes for those who are thinking about or are currently involved in running their own businesses. In many cases, the text would also be a useful resource book for practitioners outside the classroom setting.

CHAPTER STRUCTURE OF CANADIAN ENTREPRENEURSHIP & SMALL BUSINESS MANAGEMENT

Canadian Entrepreneurship & Small Business Management is divided into four parts. Each part covers an essential aspect of starting or managing a small business.

Part 1 provides background information essential to the decision to undertake small business ownership. Chapter 1 reviews the characteristics of small business and its contribution to Canadian society. Chapter 2 covers areas required for a personal evaluation of their suitability for small business ownership. Chapter 3 presents a systematic procedure for

determining whether a small business opportunity is feasible. It includes numerous sources of information essential in carrying out a feasibility analysis.

The three chapters in Part 2 discuss important aspects of starting or obtaining a business. Chapters 4, 5, and 6 review the three methods of establishing a small business. Chapter 4 discusses organizing the small business from scratch, including a special emphasis on the preparation of the business plan. Chapter 5 covers both buying a business and franchising as options for small business ownership.

Chapter 6 discusses financing concerns in starting the business and includes a listing of sources of financing for entrepreneurs.

Part 3 includes six chapters that discuss the fundamental management practices used in operating the already established business. Chapters 7, 8, 9, 10, and 11 cover in detail the small business applications in marketing, finance, internal operations, and personnel management. Chapter 12 focuses on establishing and managing relationships with outside advisors,

such as mentors and boards, along with a discussion of tax considerations for the small business owner-manager.

Part 4 discusses the future and long-term aspects of small business. Chapter 13 deals with the principles underlying effective growth management. Chapter 14 discusses methods of terminating or transferring the ownership of the enterprise, with a special emphasis on family businesses.

FEATURES OF THIS BOOK

Every chapter opens with a list of **Learning Objectives**, which clearly identify the key topics of each chapter and what the student should take away from the discussion.

LEARNING OBJECTIVES

By the end of this chapter, you should be able to:

- LO1** Recognize the importance of the marketing mix.
- LO2** Explain how products and services are created.
- LO3** Explain the differences in marketing to consumers and marketing to businesses.
- LO4** Discuss three methods of price setting.
- LO5** Identify the major steps in a promotion campaign.
- LO6** Compare and contrast different promotional tools.

The **Small Business Profiles** that open every chapter are real-life examples and real-person profiles, the epitome of applied learning.

SMALL BUSINESS PROFILE

XAVIER PEICH & GABRIEL ALBEROLA SMARTHALO

Ideas for successful businesses can come from anywhere. Some ideas can come from a deliberate search, where an entrepreneur is looking for the next great business idea. Other times ideas can come from personal experiences—both good and bad. Xavier Peich notes that he came up with the idea for SmartHalo, a bicycle accessory that turns any bike into a smart bike, after a particular run of bad luck riding his bicycle around Montreal. Peich says he was trying to use his phone to navigate through the city streets and the phone slipped out of his hands breaking the screen. A short time later his bike was stolen. Peich, who was looking for a business to pursue with his long-time friend Gabriel Alberola thought their had to be a simple solution to some of the many problems bikers face in navigating city streets. Together the pair formed the company CycleLabs and developed the concept of SmartHalo which they affectionally describe as a bike companion.

SmartHalo, which attaches to the handlebars of any bike, marries together several features cyclists are looking for including a GPS, alarm system, fitness app, messaging notification system and a headlight which switches itself off when the bike is not in use. The SmartHalo accessory also comes with a protected locking system so it cannot be stolen. SmartHalo attachment works in conjunction with the user's phone and the SmartHalo app to provide bikers with an improved biking experience.

SmartHalo's design and ease of use has led it to be championed by such influential publishers as *Times*, *Forbes*, *Fortune*, and *CBC*. The Halo uses Bluetooth technology to link your phone's GPS to the attachment. A rider simply uses their phone's GPS to select a desired location and the Halo becomes operational illustrating the correct path using lights that are easy to see and follow. If the rider misses a turn the Halo flashed red indicating the need for a U-turn. The GPS alone has been described as a significant improvement over using your phone as a GPS. In addition to the GPS feature, the SmartHalo offers cyclists a variety of desired features that are easy to use. The SmartHalo can act as a compass, allowing riders to select their own route to a desired destination; has a light that automatically turns on as the sun sets and



Photo courtesy of SmartHalo

shuts off when the cyclist stops biking; will sound an alarm if someone is attempting to steal the bike; serve as a fitness tracker, allowing riders to track their progress as they peddle; and act as an assistant by notifying riders to incoming calls and messages.

Peich and Alberola with their concept in hand then did what many aspiring entrepreneurs are doing today, they opted to skip traditional market research, and bring their product directly to consumers using the crowd-funding site Kickstarter. They initially were hoping to raise \$67,000 in pre-orders for SmartHalo but exceeded that goal on day one and raised almost \$540,000 over the course of their month-long Kickstarter campaign. The large influx of cash and pre-orders proved that the concept was a viable product and the pair started to work on building their business. The SmartHalo founders partnered with other companies to manufacture SmartHalo including Osedea, a mobile app developer, Mapbox, a GPS mapping company, and Optech, a design optics lab. Roughly 18 months after their Kickstarter campaign started, SmartHalo was being shipped to eager consumers.

CycleLabs continues to push SmartHalo and now has the product available in all Apple stores in North America and Europe. Consumers can also purchase the accessory at Best Buy and Amazon. The company is currently working on alternate maps to allow cyclists to maximize their riding experience and considering expanding the attachment to work as a guide for tourists.

The Small Business Beginnings and Small Business in Action boxes contain current, real-world examples of small business and entrepreneurship successes and challenges and discuss relevant issues related to the chapter topic. Many boxes have been expanded to include **Discussion Questions**.

SMALL BUSINESS BEGINNINGS 1-2

PEACE BY CHOCOLATE

The Hadhad family were well-known chocolatiers in their native Syria. Under father Assam Hadhad's leadership, they had a factory in Damascus, Syria, and were shipping their unique chocolates all over the Middle East when war broke out in their country. With their factory and most of Damascus destroyed, the family fled to a Lebanese refugee camp. They lived at the camp for three years until qualifying to come to Canada.

Once they arrived in Canada in 2016, the family moved to the small community of Antigonish, Nova Scotia, where community leaders had fund-raised to sponsor the Hadhads' immigration. To welcome the Hadhads to Canada, they were invited to a potluck and Assam made some of his chocolates in their new home. The chocolates were the hit of the gathering and soon afterwards the Hadhads started to sell their chocolates at local farmer's markets. Sales grew quickly and soon the family wanted to open a retail location. A short time later, 60 members of the community came together to build the Hadhads a small shed that would serve as the first store front. Tariq Hadhad, Assam's son and current CEO of the family company, says the community rallied around the family and the support from the local people was incredible.

As sales grew, so did news about the company. Soon people across Canada were talking about the Syrian family's entrepreneurial skills and their chocolates. Prime Minister Justin Trudeau spoke about the Hadhads at the United Nations, and the company was featured in dozens of news stories. The Hadhads also wanted to give back, ever thankful that Canada welcomed them into their country. While still starting their new company, the company donated money to Fort McMurray charities after the fire in 2016, and the company produced some specialty chocolate bars to celebrate and embrace Pride.

As their sales continued to grow, the Hadhads began looking to expand. They worked out an agreement with Sobeys, who had an empty building in the town: Sobeys would supply the building and Peace by Chocolates would supply Sobeys with chocolates. With the new factory in place, Peace by Chocolate required more help; they hired 10 employees in 2017 and employed 45 by 2019. Antigonish mayor Laurie Boucher says the Hadhads have been an inspiration to the small rural community. Boucher says that Hadhads have given people hope that entrepreneurship can work in rural parts of Nova Scotia.

Still looking to give back, the Hadhads have recently committed to hiring 50 refugees by 2022 and mentoring 10 refugee startups. As of 2019, Peace by Chocolate is available in over 400 Canadian locations with online sales throughout the world.

Discussion Questions

1. The Hadhad family has been quite successful in public relations (PR). The business has been featured in numerous articles and on television. What are some of the advantages of this type of marketing? Do you think the business will be able to maintain this positive PR long term? Why or why not?
2. What do you think would be some of the advantages and disadvantages associated with starting a business in rural Nova Scotia, specifically Antigonish, which has a population of approximately 4300 people.
3. Do you think Peace by Chocolate should be considered a social enterprise? Why or why not?



SMALL BUSINESS IN ACTION 1-2

YOUNG CANADIAN SOCIAL ENTREPRENEURS

More younger Canadians are turning toward social entrepreneurship as a way to make a difference in society and earn a living. For example, Greg Overholt, founder of Toronto-based **Students Offering Support**, or SOS, recruits volunteers to set up on-campus tutoring sessions for groups of students rather than traditional one-to-one tutoring. This lowers tutoring costs: students pay on average \$10 to \$20 for help compared with the \$50 to \$75 charged by for-profit tutors for a similar session. Overholt's company retains a small portion of the fee and uses the rest of the money to send volunteers on two-week outreach trips to build education projects in developing nations. The company's motto is "Raise money to raise roofs through raising marks." To date, the company has recruited more than 10,000 tutor volunteers, who have helped more than 100,000 students and raised \$2.5 million for projects throughout the world.

Chris Janssen saw an opportunity to give back when he left Canada to teach in Rwanda. Janssen noticed that groups of African students were often huddled together sharing a single textbook. Knowing that there are tens of thousands of used textbooks in Canada, Janssen and his business partner, Tom Hartford, started **Textbooks for Change**. Textbooks for Change collects textbooks in Canada and sends them to post-secondary libraries in East Africa after they fit a list of partnership criteria. It also raises money by selling used books at low cost to students across North America, and it recycles textbooks that would normally end up in landfills. The company boasts that 50 percent of the textbooks they collect are redistributed to post-secondary libraries in East Africa, 30 percent are sold at affordable prices, and 20 percent are recycled efficiently. To date, Janssen's company has donated 300,000 textbooks, distributed over \$250,000 in donations/micro-loans, and recycled/redistributed over 300,000 textbooks as well. After making Textbooks for Change sustainable, Janssen has moved to Kenya to work on his second social enterprise called eLengo, which focuses on digital education in the agriculture sector.



Chris Janssen founded Textbooks for Change, a social enterprise that collects used textbooks to provide affordable educational material for students around the world.

Photo courtesy of Chris Janssen, Textbooks for Change

Discussion Questions

1. How would you define social entrepreneurship? Do you think there is a difference between social entrepreneurs and regular entrepreneurs? Why or why not?
2. Can entrepreneurs consider themselves social entrepreneurs if they retain all the profits from their business?
3. Either in groups or individually, list some ideas for a social enterprise. If time permits, discuss the marketing mix for one social enterprise, including the product or service you will sell, how you will promote the business, the price you will charge, and where the business will be located.

Figures and tables are included to illustrate relevant ideas and concepts.

FIGURE 2-2 Characteristics of Entrepreneurs

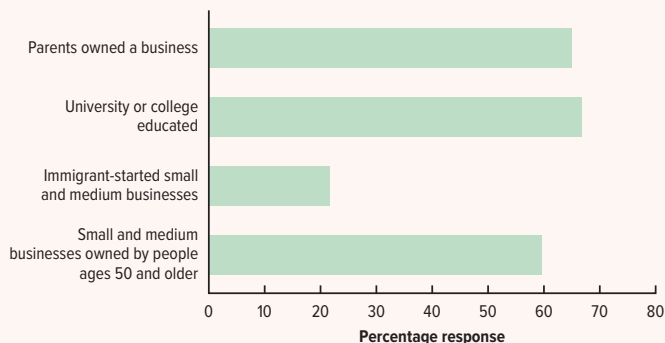


TABLE 6-1 Start-Up Cost Schedule

ITEM	COST	SOURCE
Land and buildings	No cost—leased	If purchased, a similar business or quotes from suppliers
Equipment	\$ 34,000	Other similar businesses or quotes from suppliers
Initial inventory	70,000	Other similar businesses or quotes from suppliers Use the formula $\text{Inventory} = \text{Projected sales} / \text{Inventory turnover}$ (300,000/4.3)
Wages (first two months)	6,000	Other similar businesses or current wage rates
Utilities and telephone		
First deposit	100	Quotes from provider
First two months	680	Quotes from provider
Rent (deposit)	500	Quotes from lessor
First two months	3,000	Quotes from lessor
Advertising agency/media	960	Quotes from advertising agency or media
Insurance (prepaid)	975	Quotes from insurer
Licences and permits	200	Quotes from municipal agency
Other prepaids	285	Other similar businesses
Contingency	3,300	
Total start-up requirements	\$120,000	

Each chapter contains a **Learning Objectives Summary** that clearly reinforces the learning objectives covered in the chapter.

LEARNING OBJECTIVES SUMMARY

- LO1** A key element in the marketing plan is establishing the correct marketing mix. A good marketing mix will create value and long-term relationships with target customers and distinguish a business from its competitors.
- LO2** Product development involves idea generation, product testing, and ultimately, if successful, commercialization.
- LO3** Consumer marketing involves less detail and a shorter buying cycle compared with business marketing.
- LO4** The three methods of setting price are cost-based, demand-based, and competition-based pricing.
- LO5** Within a marketing plan, businesses usually have a promotional plan that includes objectives, information about target markets and an understanding of their needs, a theme, strategies and tools, messages, budgets, the timing of implementation, and a method of evaluation.

The **Time to Take Action**, **Discussion Questions**, and **Experiential Exercises**, appearing at the end of every chapter, allow students to use applied and lateral thinking and to come up with unique solutions to typical small business issues.

DISCUSSION QUESTIONS

- Briefly explain the ways of entering a market. List examples that fit these methods other than those mentioned in the text.
- J&J Inc. is thinking of developing a new coin laundry. The firm first needs to do some market research to determine the demand for the product. What kind of information should it collect?
- Why is it important to make adjustments in market potential and market share figures?
- For a small business of your choice, show how you would evaluate nonquantitative factors, such as goals, experience, lifestyle, and content of work.
- Discuss the difficulties of preparing a feasibility analysis for an e-commerce business.

The end-of-part **Cases**, as well as the end-of-text **Supplementary Cases**, provide numerous opportunities for students to apply the theory covered in the text.

CASES FOR PART 3

Derocher's Market	Taylor Construction Company
Home Smart Hardware Store	The Barrow Bracket
Martha's Designs	Threadz
Sadie's Country n' Western Store	Garner Men's Wear
Dale's Sport Pursuit	Boomerang Bouncers Entertainment
Susie's Fashions	

DEROCHER'S MARKET

Derocher's Market opened a new store in Québec City in January 2019. Although the firm has been in business for three generations, the neighbourhood in which the original store stood had become shabby, and many of its loyal clientele had moved to the suburbs. The present owner, Claude Derocher, decided to follow the population move. The new store is located next to a several other small independent businesses near more than 70 four-storey apartment buildings that house more than 400 families. Many more apartment buildings are under construction, as well as three- and four-bedroom single-family homes in several nearby housing developments. The nearest competition is located approximately three kilometres northeast of the present shopping centre.

The **Comprehensive Case** runs throughout the text and has been updated for the eleventh edition. Following a typical small business person's progress and challenges, this case allows students to build on the concepts as the course progresses.

COMPREHENSIVE CASE DAN KIM: PART 3

Dan is quite proud of his business plan and realizes that he has learned a lot in preparing it. He also realizes, however, that for the business to get off the ground, he needs to raise additional money. Suzie will only let Dan use \$20,000 of their savings for the venture, but Dan is of the opinion that this will at least help them get started. Once the business is up and running, additional funds will be generated through sales of the Ladder Helper.

Dan has also decided that he would rather establish the manufacturing facility from scratch rather than lease or purchase an existing facility. This way he can arrange the building as it suits him, and he will not have to spend money to retrofit. In addition, Dan lives on an acreage which he inherited and he already owns enough property on which to construct the building. He estimates that constructing a small building of 2000 square feet will cost

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Instructor Resources for Canadian Entrepreneurship and Small Business Management, 11e

- Instructor's Manual
- Test Bank
- Microsoft® PowerPoint® Presentations

Manager's HotSeat Videos

This resource allows students to watch real managers apply their years of experience to management and organizational behaviour issues. Students assume the role of the manager as they watch the video and then answer multiple-choice questions following the segment. The Manager's HotSeat Videos are ideal for group or classroom discussions.

CBC Videos

CBC video assignments are available within the Connect Library Resources tab. They are an excellent supplement to lectures and useful for generating in-class discussion.

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The Connect Application-Based Activities are highly interactive and automatically graded application- and analysis-based exercises wherein students immerse themselves in a business and marketing environment, analyze the situation, and apply their knowledge of small business and marketing strategies. Students progress from understanding basic concepts to assessing and solving complex real-world scenarios.



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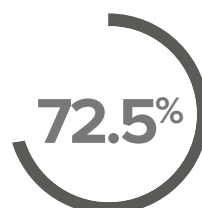
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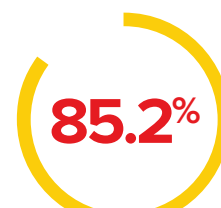
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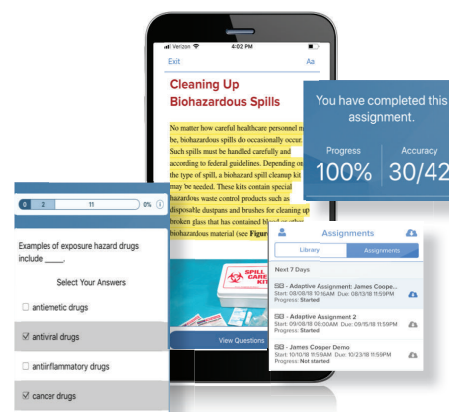
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Dr. Peter Mombourquette



PART 1

THE DECISION TO START A BUSINESS

The decision to start your own business is a difficult one. It often involves leaving secure employment to face an uncertain financial future. Such a decision can have far-reaching effects on the physical, emotional, and financial aspects of your life. To provide a better understanding of the implications and preparation for this decision, Part 1 discusses three topics.

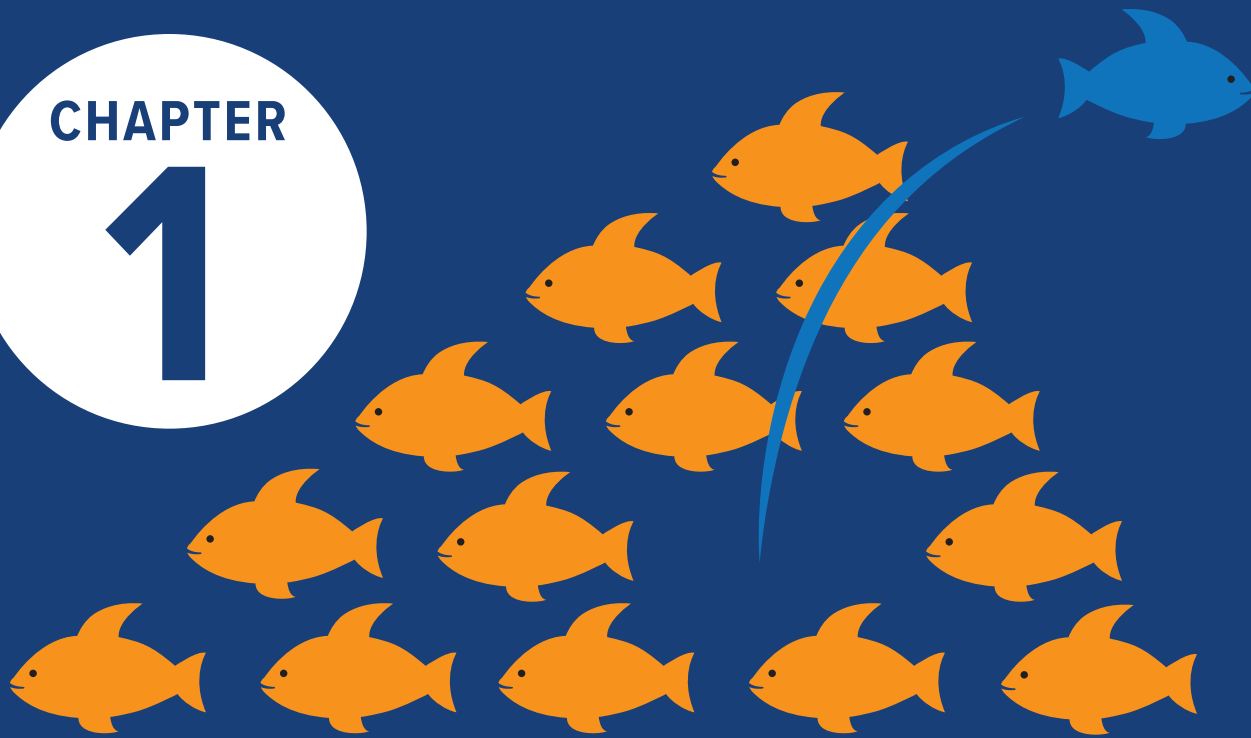
Chapter 1 reviews the role of small business in Canadian society. It examines current trends and the probable future environment for small business.

Chapter 2 describes the characteristics of successful and unsuccessful small businesses, and the personal characteristics that most successful entrepreneurs have. The chapter also reviews the potential advantages and disadvantages of operating your own business. Understanding this information can help you make an informed small business career decision.

Once an individual understands the relative merits of starting a small business and feels suited to such a career, he or she can do several things in pursuit of the best business opportunity. Generally, a person needs to gather a considerable amount of information to evaluate business opportunities. **Chapter 3** presents ideas that can improve information collection and analysis skills for this purpose.

CHAPTER

1



THE ROLE OF ENTREPRENEURSHIP AND SMALL BUSINESS IN CANADA

LEARNING OBJECTIVES

By the end of this chapter, you should be able to:

- LO1** Discuss the level of interest and activity in the small business sector.
- LO2** Evaluate common methods of defining small business and explain why a definition is important.
- LO3** Summarize the current extent of entrepreneurship and small business in Canada.
- LO4** Describe the benefits a healthy small business sector can offer society.
- LO5** Explain the probable future environment for entrepreneurship and the small business community.

SMALL BUSINESS PROFILE

JAY DINGWALL *Famous Folks*

Jay Dingwall recalls walking the streets of Toronto and becoming frustrated. He had just completed his Masters degree in Business Administration in Florida and, rather than return to his native Nova Scotia, he decided to move to Toronto and pursue his ambition to work for a marketing agency. Unfortunately, he was not having much success in landing a job. Dingwall had some work experience, two degrees, and spent considerable time playing competitive sports, which he thought would illustrate to others he was a strong team player. Yet he couldn't find a job working in the field he wanted; some firms said he was overqualified, while others didn't offer much in the way of an explanation. Dingwall, who is originally from the working-class community of Cape Breton, decided if he couldn't find a job with an agency, he would start his own. He says part of his resilience came from growing up in place where people didn't quit.

At the time, celebrities and other well-known people were becoming aware of their online brand, and he decided to create a firm that would help celebrities profit from their online and personal brands, so he named his company Famous Folks.

Dingwall knew he needed help with design for his firm and reached out to Ryan Joseph, a fellow Cape Bretoner who was working in Halifax, Nova Scotia. Dingwall said it was the best decision he ever made. Not only did Joseph think the same way he did about branding, but he was also creative and exceptionally hard working. A short time later the pair became partners.

The partners started looking for clients and noticed Pizzatown, a Halifax landmark, was in need of a branding redesign. With no contract in hand, Dingwall and Joseph created a new brand for the firm and met with the owner. A short time later, they received a contract—their first—and Famous Folks was officially started. They began to develop a niche in creating powerful brands both on- and offline.

Dingwall says the start-up stage for Famous Folks was more educational and far outweighed what he learned in school. But, he noted, starting up is hard: the entrepreneur must hunt and gather clients and there are many ups and downs. For example, shortly after landing the Pizzatown deal, Famous Folks



Photos courtesy of Famous Folks

signed its first larger client in Toronto, the owner of several high-end car dealerships specializing in Porsche and Audi cars. Dingwall was sure their business was really moving in the right direction. Then, the economic crash of 2008 struck. With the economy in a tailspin, no one was buying high-end cars, and with the decline in the economy came the end of the contract.

Dealing with the ups and downs of the business environment is part of being an entrepreneur, Dingwall notes. Rather than quit in 2008 when other small and even large firms closed, he and his partner persevered, slowly building their business over time. Because he and Joseph believed in their shared vision of creating a boutique entrepreneurial firm, this is exactly what they have established. Dingwall says his firm has roughly 15 full-time employees who like to work for Famous Folks as they can multitask and take on entrepreneurial-type roles. Employees and both owners really get their hands dirty on each and every project, and are able to learn from one another. Being small and engaged, the co-owners and the rest of the team are able to invest time in getting to know

[continued]

[continued]

clients and their business. The deep knowledge gained is empowering, and it enables Famous Folks to create powerful branding and marketing messages, and to position materials in the appropriate forms.

Dingwall says that being an entrepreneur, especially a young entrepreneur, is both challenging and

educational. He notes that the advantage of starting a business right out of school, as he did, is people are willing to help young people get started. In the end, he says, entrepreneurship will grow your confidence and overall business knowledge.

FAMOUS FOLKS
famousfolks.ca

INTRODUCTION TO ENTREPRENEURSHIP AND WHY STUDENTS WILL WANT TO STUDY THE SUBJECT

This chapter provides an overview of the importance of and trends toward small business. The terms *entrepreneurship* and *small business ownership* will be used interchangeably throughout the chapter. Entrepreneurs typically start small businesses, but sometimes they establish larger enterprises. At the same time, many small business owners may not be considered very entrepreneurial. The differences between entrepreneurs and small business owners or managers will be discussed in detail in **Chapter 2**. In addition, the distinction between the entrepreneur and the small business is often difficult to make because the owner-manager and the business are frequently very much intertwined. This relationship between entrepreneur and business will also be discussed in the next chapter.

You may be asking yourself, “Why should I study entrepreneurship?” Perhaps you are interested in owning a business or are curious about why some businesses succeed and others fail. Entrepreneurship is an exciting field and studying small business has many benefits:

- Students who study entrepreneurship are more likely to start a business.
- Students who enroll in entrepreneurship courses earn more money.
- Students who enroll in entrepreneurship courses learn about important topics such as business planning, managing growth, and family businesses.
- Students who study entrepreneurship develop critical thinking and problem-solving skills.
- Because of trends in the workforce, such as outsourcing and subcontracting, many would-be employees end up working for themselves. People who study entrepreneurship are more likely to succeed in today’s workforce.
- Ninety-nine percent of businesses in Canada are considered small or medium-sized enterprises (SMEs), so even if you never become an entrepreneur, you are likely to work in a small firm.¹ Studying entrepreneurship will provide you with the knowledge and skills to be successful in small companies.
- Research indicates that students enjoy learning about entrepreneurship.

In an opinion piece for *The Globe and Mail*, Bruce Rothney, CEO and Country Head of Barclays Canada, says that young people need exposure to entrepreneurship and risk taking if they are to be successful in the changing economy. Rothney is not alone in this belief, but he offers pointed advice to young people that entrepreneurship can build resilience and knowledge leading to long-term business success.² Jay Dingwall, who is featured in the

Small Business Profile that opens this chapter, agrees: he says he learned more about business being an entrepreneur than he learned in school.³

To better understand entrepreneurship and small business, it is important to consider the nature and development of the subject, particularly as it pertains to Canada.

NATURE AND DEVELOPMENT OF ENTREPRENEURSHIP IN CANADA

LO1

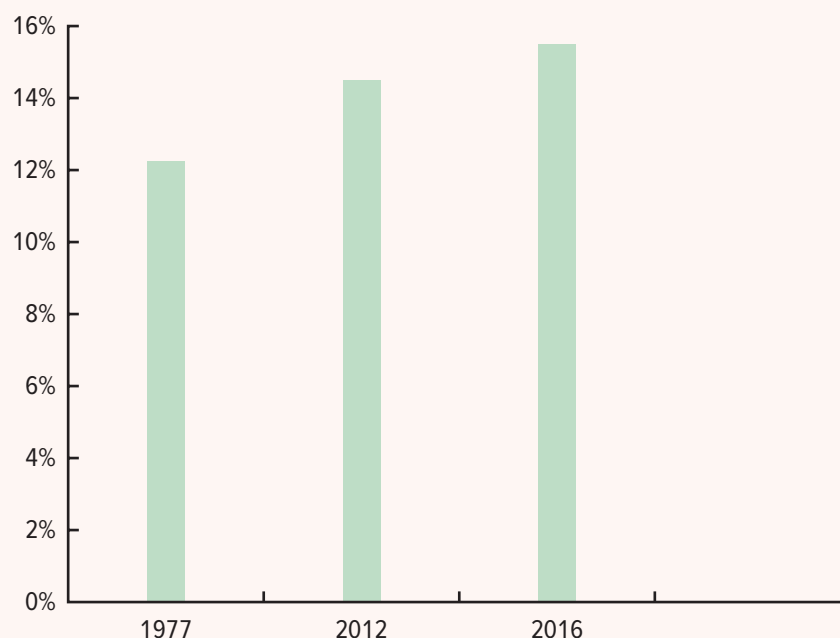
Since the mid-1970s, there has been a reawakening of interest in entrepreneurship and business ownership in Canada, the United States, and abroad. After World War II, the philosophy in many circles was that bigger was better in both business and government. As a result, for several years, government increased in size, and the climate for big business improved.

The critics of “bigness,” however, have gathered support because big government and big business have failed to provide the expected panacea for society’s economic problems. The result has been that more people and more governments are looking to small business to provide a catalyst for their stagnant economies and to enable faster economic growth. As John Naisbitt stated in *Global Paradox*, “The entrepreneur is the most important player in the building of the global economy, so much so that big companies are decentralizing and reconstituting themselves as networks of entrepreneurs. Huge companies must break up to become confederations of small, autonomous, entrepreneurial companies if they are to survive.”⁴

In a survey conducted by Ernst and Young, eight out of ten influential North Americans indicated that they believe entrepreneurialism will define twenty-first-century business.⁵ For example, Arlene Dickinson, angel investor, owner of **Venture Communications** and star of CBC’s *Dragons’ Den*, says that entrepreneurs are the most important element of the Canadian economy and build our country’s social and cultural makeup.⁶ Growth in entrepreneurial interest and behaviour is evident in Canada. Approximately 500,000 people start a business each year in Canada, and interest among Canadians about entrepreneurship is growing.⁷ For example, a recent **RBC** survey found that 54 percent of Canadians said they have thought about starting their own business. Additionally, 56 percent of Canadians are already acting entrepreneurial whether it be making money from a project (28 percent), taking on side jobs (20 percent) or testing out new business ideas (8 percent).⁸ Additionally young people are especially interested in entrepreneurship as 46 percent of university students envision themselves starting a business after they graduate.⁹ The international Global Entrepreneurship Monitor places Canada second in the world, behind only the United States, in entrepreneurship activity.¹⁰ Additionally, Canada has been consistently recognized for having one of the highest levels of entrepreneurial activity in innovation-driven economies and in early-Stage Entrepreneurial Activity, according to Global Entrepreneurship Monitor guidelines.¹¹ By any measure, the trend toward improved entrepreneurial attitude, self-employment growth, and small business formation is positive in Canada. Starting a business is now seen as a preferred occupational alternative for many Canadians, and self-employed people make up over 15 percent of the labour force (**Figure 1-1**).

This growth in entrepreneurial attitudes, along with the significant growth in self-employment and small business formations, illustrates that entrepreneurship is firmly established in Canada. Except for a brief slowing of this growth from 1999 to 2002 and from 2008 to 2010, the growth of small businesses has consistently surpassed that of larger organizations and the economy as a whole.¹² As a result, the importance of the small business sector of Canadian society is now more widely acknowledged than ever.

What has fuelled this growth? Throughout this text, we will use many examples of entrepreneurs to illustrate why an increasing number of people are establishing their own businesses. The dream of starting small and developing a successful business, such as that of Jay Dingwall, who was featured in the **Small Business Profile**, or brothers Jesse, Luke, and Mason Hambly who invented the Pressa Bottle, a water bottle that allows users to infuse healthy fruit into their water (see **Small Business in Action 1-1**), is shared by many. However, many individuals have become successful entrepreneurs because of the downsizing of larger organizations. A survey found that 22 percent of small businesses are started for this reason.¹³ For example, Ted Nugent, a Vancouver computer games developer, started Genius Factor Games when he was laid off from a gaming company. He was

FIGURE 1-1 Self-Employed as a Percentage of the Labour Force

able to use his experience and his interest in being his own boss to launch his first product: *Gravity Well*. Nugent described the product as a cross between pinball and mini-golf.¹⁴ Genius Factor Games went on to launch several games for smartphones and mobile devices, and developed *Heart Hero*, a game that teaches people how to administer CPR, for the Canadian Heart and Stroke Foundation.

SMALL BUSINESS IN ACTION 1-1

CROWDFUNDING HELPS BROTHERS BUILD A BETTER WATER BOTTLE

Brothers Jesse, Luke, and Mason Hambly from Elora, Ontario, are the creators of **Pressa Bottle**, a water-bottle infuser that allows users to press fruit and vegetables into their water for a refreshing and healthy drink.

Jesse Hambly says he came up with the idea for the product when he noticed that many of his friends were infusing their water bottles with fruits and vegetables yet were unhappy with the results. Friends complained both about the taste of the water and their inability to properly release healthy nutrients into their drinks. The three brothers decided to try current water-bottle infusers themselves and were unhappy with the results. Given the trend in society towards the consumption of more water and the desire to encourage people to drink healthier, the brothers decided they could create a better water infuser and a business. Rather than start building expensive prototypes, the trio accessed a 3D printer and within a week created their first working Pressa Bottle.

While the brothers admit the first bottle may not have been aesthetically pleasing, they did have a working prototype that would infuse juice into water to capture the full



Jesse, Luke and Mason Hambly used Kickstarter to raise \$40,000, which helped them commercialize their Pressa Bottle.

Photo courtesy of Pressa Bottle

taste of the fruits and/or vegetables. They worked on the design until they were happy with the look and feel. Then, they brought the prototype to Conestoga and Georgian College for some entrepreneurship consulting; they eventually worked with the Accelerator Centre in Waterloo, Ontario.

Desperate to know what people thought about the bottle, the brothers brought it to a variety of public events asking people to try it and to provide feedback. Based on that feedback, the business partners felt they had the desired design and that the product met its promise of delivering fresh, infused juice into a traditional water bottle.

With the finished product in hand, the brothers opted to pre-sell the water bottle on the crowdfunding site Kickstarter. Kickstarter allows supporters of a business idea an opportunity to pre-purchase products, usually at a discount, prior to the product being manufactured. With a catchy Kickstarter campaign that included a focus on local public relations, the brothers managed to pre-sell \$40,000 worth of Pressa bottles and could begin manufacturing. A short time later, a website was launched, and initial monthly sales eclipsed \$35,000 a month. The Pressa Bottle, which delivers Pressed Water as the brothers like to say, is now for sale on Amazon and Indigo websites as well as retail locations. The brothers hope to earn in excess of \$500,000 in sales in their first year of business.



Photo courtesy of Pressa Bottle

Discussion Questions

1. Do you think the Pressa Bottle will continue to be a successful product? Why or why not?
2. What do you think are some of the advantages and disadvantages of crowdfunding?
3. Visit the Kickstarter website and report back to the class on some of the best ideas that are being pitched. What are the terms associated with the ideas? Would you personally donate or invest money using crowdfunding?

During the recession from 2008 to 2010, many companies downsized, and many college and university graduates who were unable to secure employment started their own businesses. For example, David McDonald of Halifax started his own landscaping business after he could not find work when he graduated from **Mount Saint Vincent University** with a bachelor of business administration degree. McDonald used his business skills to determine there was a market for environmentally friendly landscaping and offered lawn care using organic products and push mowers. Others chose to leave secure employment and strike out on their own because of a natural interest or a desire for a challenge.

While some people are drawn to starting a business from scratch to make money or are pushed into entrepreneurship when they cannot find a job, others are attracted to entrepreneurship as a means to make a living and help solve some of society's problems. This trend of earning money and helping society has given rise to the term "social entrepreneurship." A social entrepreneur is a person who applies the skills of entrepreneurship, such as risk taking, problem solving, and business planning, to create social change. Social entrepreneurs not only strive to make money but also work toward making the world a sustainable community. For example, Dr. Gavin Armstrong, founder and CEO of **Lucky Iron Fish Enterprise (LIFE)**, a Guelph-based social enterprise developed a solution to iron deficiency, one of the world's largest nutrient challenges, which can cause anemia, cognitive deficiencies, and fatigue. Armstrong says people with iron deficiency usually have to take supplements which are difficult to digest and expensive. Armstrong says people need a simple solution and his iron fish which can be placed in boiling water can fortify meals with healthy iron. His company sells the iron fishes

globally and for every one sold he donates an iron fish to a family in need. To date the company has donated 45,000 iron fish helping 250,000 people.¹⁵



Dr. Gavin Armstrong's social enterprise, Lucky Iron Fish, sells an affordable and safe solution to iron deficiency. Consumers simply drop the iron fish into boiling water or liquid-based meals to infuse their meals or drinking water with the needed supplement.

Jesse Winter/Toronto Star via Getty Images

Other examples of social entrepreneurship include Indigenous entrepreneur Jenn Harper founder of **Cheekbone Beauty Cosmetics Inc.** Harper's company which specializes in making and selling lip gloss, donates 10 percent of all profits to First Nations Child and Family Caring Society of Canada.¹⁶ **Small Business in Action 1-2** for more examples of young social entrepreneurs. Canadian philanthropist, and eBay's first employee and eventual CEO, Jeff Skoll believes so much in the idea of social enterprise and social entrepreneurship that he created the **Skoll Foundation** to invest in social entrepreneurs. The Foundation is the world's largest organization dedicated to social entrepreneurship and makes annual grants of \$40 million to social entrepreneurs and social organizations throughout the world. Skoll thinks that many of society's complex problems need to be addressed with innovative solutions.¹⁷ Who better to develop these solutions than entrepreneurs? Entrepreneurs are known for their hard work, problem-solving skills, and innovativeness, which is needed in today's society. Social entrepreneurs are usually ambitious people who value helping society over making a profit and are driven to produce results.

SMALL BUSINESS IN ACTION 1-2

YOUNG CANADIAN SOCIAL ENTREPRENEURS

More younger Canadians are turning toward social entrepreneurship as a way to make a difference in society and earn a living. For example, Greg Overholt, founder of Toronto-based **Students Offering Support**, or SOS, recruits volunteers to set up on-campus tutoring sessions for groups of students rather than traditional one-to-one tutoring. This lowers tutoring costs: students pay on average \$10 to \$20 for help compared with the \$50 to \$75 charged by for-profit tutors for a similar session. Overholt's company retains a small portion of the fee and uses the rest of the money to send volunteers on two-week outreach trips to build education projects in developing nations. The company's motto is "Raise money to raise roofs through raising marks." To date, the company has recruited more than 10,000 tutor volunteers, who have helped more than 100,000 students and raised \$2.5 million for projects throughout the world.

Chris Janssen saw an opportunity to give back when he left Canada to teach in Rwanda. Janssen noticed that groups of African students were often huddled together sharing a single textbook. Knowing that there are tens of thousands of used textbooks in Canada, Janssen and his business partner, Tom Hartford, started **Textbooks for Change**. Textbooks for Change collects textbooks in Canada and sends them to post-secondary libraries in East Africa after they fit a list of partnership criteria. It also raises money by selling used books at low cost to students across North America, and it recycles textbooks that would normally end up in landfills. The company boasts that 50 percent of the textbooks they collect are redistributed to post-secondary libraries in East Africa, 30 percent are sold at affordable prices, and 20 percent are recycled efficiently. To date, Janssen's company has donated 300,000 textbooks, distributed over \$250,000 in donations/micro-loans, and recycled/redistributed over 300,000 textbooks as well. After making Textbooks for Change sustainable, Janssen has moved to Kenya to work on his second social enterprise called eLengo, which focuses on digital education in the agriculture sector.



Chris Janssen founded Textbooks for Change, a social enterprise that collects used textbooks to provide affordable educational material for students around the world.

Photo courtesy of Chris Janssen, Textbooks for Change

Discussion Questions

1. How would you define social entrepreneurship? Do you think there is a difference between social entrepreneurs and regular entrepreneurs? Why or why not?
2. Can entrepreneurs consider themselves social entrepreneurs if they retain all the profits from their business?
3. Either in groups or individually, list some ideas for a social enterprise. If time permits, discuss the marketing mix for one social enterprise, including the product or service you will sell, how you will promote the business, the price you will charge, and where the business will be located.

Recently, governments have been promoting social enterprise at the national and provincial levels, and several provinces, such as Nova Scotia, have developed strategies to assist social entrepreneurs. Prominent Canadian social enterprise organizations the **Social Enterprise Council of Canada**, and the **Canadian Social Enterprise Foundation**. Additionally, a school for social entrepreneurs has been started in Ontario, the **School for Social Entrepreneurs**, whose mission is "to empower communities by developing community leaders and transformational social ventures that produce tangible, visible, meaningful, and positive impact."¹⁸

The information and examples discussed so far provide evidence of the growth of small business and how entrepreneurs, such as Jay Dingwall, Jesse Hambly, and Greg Overholt, can overcome hurdles to be successful. A detailed discussion of the evidence for small business growth follows.

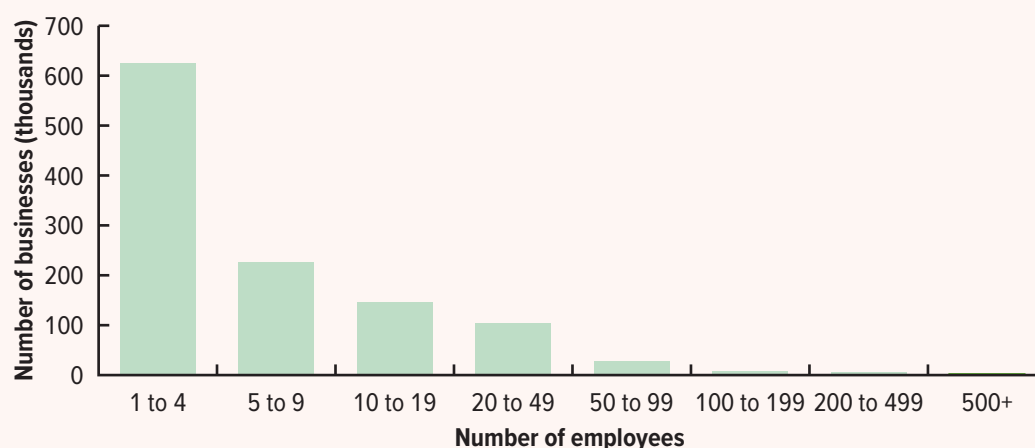
INCREASES IN THE NUMBER OF BUSINESS ESTABLISHMENTS

Considerable research has been done to determine the number of new businesses established each year. This has proved a difficult, if not impossible, task because of the many different types of businesses and the varied methods of estimating business start-ups. Some indicators of business start-ups that researchers have used include tax returns, new employer registrations, phone hookups, new incorporations, and business registrations.¹⁹

Figure 1-2 shows the number of small businesses in Canada in 2017. Small businesses with few employees constitute the majority of all businesses with employees, but small businesses with no employees make up an even larger number. In addition, the number of businesses with fewer than 50 employees has increased substantially

over the past decade. Similar trends for the United States show even more increases in small business formations than in Canada.²⁰ Statistics Canada has estimated that 97.9 percent of all existing businesses have fewer than 100 employees, 73.4 percent have fewer than 10 employees, and 53.8 percent have from one to four employees.²¹ By 2018, small businesses employ 10.7 million people or 89.6 percent of all private sector employees.²²

FIGURE 1-2 Number of Businesses by Firm Size, 2017



INCREASES IN THE NUMBER OF EMPLOYEES OF SMALL BUSINESSES

The number of Canadians employed by small and medium-sized businesses has grown substantially in recent years and has been estimated at slightly over eight million.²³ In addition, there has been a marked shift in new job creation from a reliance on big firms and projects to small firms and entrepreneurs. The federal department of Business and Industry indicates that 85.3 percent of new net jobs were created by small and medium businesses from 2013 to 2017.²⁴

INCREASES IN GOVERNMENT INTEREST AND PROGRAMS

Politicians recognize the importance of small business to a healthy economy and are beginning to offer various financial and non-financial programs to assist the small business owner. Recently both the federal and provincial governments have been working to reduce the amount of red tape or bureaucracy small business owners have to manage.²⁵ The Department of Innovation, Science and Economic Development Canada (formerly Industry Canada) administers and works with Canadians to coordinate programs designed to aid small business at the federal level. Likewise, all the provinces and territories have departments that perform the same function for small businesses within their jurisdictions. **Appendix 3A** lists some of these agencies. In addition, Canada Revenue Agency provides a number of tax breaks to entrepreneurs and investors who lend money to small and growing firms.

INCREASES IN THE NUMBER OF SMALL BUSINESS-RELATED COURSES AT COLLEGES AND UNIVERSITIES

The level of interest in small business-related courses at Canadian colleges and universities has risen dramatically in the past few years. The trend of increasing the number of entrepreneurship courses in business schools appears to be continuing.²⁶ Traditionally, such courses were housed in management and commerce faculties and attracted only students of those faculties. However, as a result of the growing general interest in small

business, many nonbusiness majors now take these courses. In addition, entrepreneurship courses have become increasingly common in arts and science programs throughout the country. This growth has been attributed to a number of factors, including a strong likelihood that these students, particularly those studying fine arts and engineering, may one day become entrepreneurs. As such, many schools have added entrepreneurship courses as a matter of practicality. Demand has also been fuelled by arts and science students who see studying entrepreneurship as a way to link career development to their chosen field of study. Entrepreneurship courses are also becoming common at high schools throughout Canada, and some entrepreneurial topics are being discussed in classrooms before high school.



Entrepreneurship can begin early, even with school-age children.

Blend Images/Shutterstock.com

INCREASES IN ENTREPRENEURIAL ACTIVITIES KNOWN AS INTRAPRENEURSHIP IN LARGE BUSINESSES

Intrapreneurship can be defined as entrepreneurship within an existing organization. Intrapreneurs are employees who use entrepreneurial skills to solve problems or create additional revenue streams for a company. The Global Entrepreneurship Monitor, which studies entrepreneurship activity throughout the world, has concluded that Canada ranks second in employee entrepreneurial activity which is a measure of intrapreneurship.²⁷ For example, Ali Asaria was acting as an intrapreneur when he created the mobile game *Brick Breaker* for **BlackBerry**. Many large, successful companies have developed or altered their organizations to promote creativity, entrepreneurship, and individual initiative.²⁸ These businesses have realized considerable productivity gains by encouraging this type of intrapreneurship. For example, **3M Canada** encourages employees to act intrapreneurially and will give them time away from their traditional jobs if it believes the employee's ideas could lead to costs savings or additional revenue. In their extensive study of successful large companies, which resulted in the best-selling book *In Search of Excellence*, Thomas Peters and Robert Waterman found that one common characteristic of these organizations was their formal encouragement of entrepreneurship within and among departments. These companies were quick to recognize increases in productivity and innovativeness by rewarding employees who engaged in such entrepreneurial behaviour.²⁹ Canadian companies such as Bombardier and CGI Group have incorporated these practices into their organizations. Other large companies have struggled with the implementation of intrapreneurship because of their size and bureaucratic structure. This difficulty also exists within spin-off entrepreneurial divisions of the main company.³⁰ This will be discussed further in **Chapter 2**.

INCREASES IN THE POLITICAL POWER OF SMALL BUSINESS

The small business community is a significant economic force in Canadian society. Several organizations are currently attempting to advance the small business cause through lobbying efforts and educational programs. The largest and most visible organization is the Canadian Federation of Independent Business (CFIB), which boasts a membership of more than 110,000. Current concerns of CFIB members include lowering tax rates, improving government regulations, and creating a stronger business environment.³¹ Lobbying has resulted in many government programs and some legislation beneficial to small business. Many industry associations made up primarily of small businesses are also very active in lobbying activities and have influenced the directions of government initiatives.

IMPROVEMENT IN THE IMAGE OF SMALL BUSINESS

Small business owners and entrepreneurs are viewed very positively today. The benefits of entrepreneurship are being proclaimed by universities and colleges, governments, and corporations. Entrepreneurship careers are considered to be honourable and, in some cases, prestigious pursuits. For example, Global Entrepreneurship Monitor reported that Canada leads all G7 economic nations in the perception that entrepreneurship is a good career choice (65.6 percent). The report considers three factors when assessing a country's attitudes towards entrepreneurship including whether people consider entrepreneurship as a good career choice, if entrepreneurs have a high status in society, and positive media coverage of entrepreneurs. Canada ranked well above the average compared to other innovation-driven economies in all three categories: good career choice (66 percent vs 57 percent), high status (78 percent vs 70 percent), and positive media coverage (77 percent vs 62 percent).³²

As discussed above, increased coverage of entrepreneurship in the media has been a significant influence on the public's positive attitude toward it. The media have played a powerful role by engaging in discussions about the impact of entrepreneurship on society, highlighting entrepreneurial successes, and offering entrepreneurs and potential entrepreneurs advice as well as stories on emerging trends. *The Globe and Mail*, *National Post*, and *Canadian Business* all regularly publish content both in print and online highlighting entrepreneurial success stories and offer advice to current and aspiring entrepreneurs.

Television networks are increasingly offering shows that celebrate the achievements of entrepreneurs and promote business ownership. For example, CBC's hit series *Dragons' Den* has entrepreneurs presenting their business ideas to a panel of wealthy investors known as the Dragons. Entrepreneurs who appear on the show are hoping to get the Dragons to invest money and time into their business for a share of future profits. Entrepreneurs on the show also benefit from airtime on CBC, and estimates are that businesses appearing on the program see sales increase by 30 percent after an episode airs.³³ Although the show has its share of critics, as some do not care for the personalities of the Dragons, most people agree that *Dragons' Den* has positively promoted entrepreneurship as a career.

WHAT IS SMALL BUSINESS?

LO2

What size of business qualifies as a small business? This question is not easy to answer because the organizations and agencies concerned with small businesses use different definitions. It is essential, however, to understand some of the common characteristics of these definitions to better appreciate what constitutes a small business.

COMPARISON AND EVALUATION

To compare the performance of a small business with that of other small businesses, it is necessary to understand the sizes and characteristics used by data collection and dissemination agencies, such as Statistics Canada and Dun and Bradstreet. Ensuring that firms are relatively the same size allows a more meaningful monitoring of sales levels, performance, and productivity in relation to other similar firms in the industry. Currently, Statistics Canada publishes operating data for incorporated and unincorporated businesses with average net sales of \$1 million or less.

GOVERNMENT PROGRAMS

Knowing how various government departments define a small business enables an entrepreneur to take advantage of the tax incentives and other government assistance programs designed for small business. Examples of differences in definitions among government agencies are given below.

LENDING PROGRAMS

A small business owner needs to know the size of business that lenders require in their lending programs to take advantage of favourable small business provisions. Programs are available to small businesses from the Business Development Bank of Canada (BDC), provincial or territorial government lending agencies, and chartered banks. Therefore, it is important to understand the criteria commonly used to distinguish a small business from a large one. At least four criteria are used.

1. Number of Employees.

Innovation, Science and Economic Development Canada specifies a small business as one that employs fewer than 100 people in a manufacturing industry and fewer than 50 employees in a non-manufacturing industry. The Ministry for Small Business and Tourism also uses the guideline of 50 employees, while the **BDC** considers a business that employs fewer than 75 people to be eligible for some of its consulting services. Other organizations, such as the Canadian Bankers Association, classify a company as small if it qualifies for a loan authorization of less than \$250,000. Micro-businesses are businesses that employ fewer than five employees, while businesses employing fewer than 500 are classed as SMEs (small and medium-sized enterprises).³⁴

2. Total Revenue.

Although the limits vary by industry, total revenue is a common basis for defining small business. The Ministry of Small Business and Tourism uses \$2 million in revenue as a benchmark. The Canadian Small Business Financing Act applies to firms with revenues of less than \$10 million. The Small Business Administration in the United States uses business specific revenue guidelines in determining the size of a business with the amount varying greatly by industry. For example, a carpet and upholstery business will be classified as small as long as revenue does not exceed \$5.5 million while a men's clothing store will be classified as small up to \$11 million in revenue.³⁵

3. Profits.

Canada Revenue Agency uses operating profits as a guideline to define which businesses qualify for the small business deduction. This special deduction allows a reduced tax rate (the small business deduction is discussed in detail later in the text). This limit is presently set at a net operating profit of \$500,000.³⁶

4. Type of Management-Ownership Structure.

Another criterion used to define small business is the degree to which the owner is also the day-to-day manager of the business. With some exceptions, the majority of small business owners are also the managers.³⁷ Because the guidelines differ among industries and agencies, the Committee for Economic Development in the United States uses a slightly different and less specific approach in defining small business. Its definition states that if any two of the following characteristics exist, the business may be classified as a small business:

1. Independent management (i.e., the owner is the manager)
2. Owner-supplied capital
3. Local area of operations
4. Relatively small size within its industry

It is no easy task to define the size limits of small business. The definition used depends on the purpose and the agency or program concerned.

CURRENT STATE OF SMALL BUSINESS IN CANADA

LO3

Although the size and extent of small business in Canada depends on the definition used, a review of the data compiled by Statistics Canada and Innovation, Science and Economic Development Canada illustrates that small business is a significant part of the Canadian economy. Some interesting facts about the importance of small business include:

- 99.8 percent of business in Canada can be classified as small or medium enterprises; that is, they have fewer than 500 employees.
- 97.9 percent of all businesses operating in Canada employ fewer than 100 employees, while 73.4 percent of all businesses have fewer than 10 employees.
- 48 percent of the labour force or slightly over five million people are employed in small business.
- 50.2 percent of gross domestic product (GDP) is provided by small business.
- 41.9 percent of exports were from small businesses, accounting for \$202 billion in sales.
- 83.5 percent of net job creation is from small business from 2013 to 2017.
- 100,000 new small businesses are started annually.³⁸

YOUNG ENTREPRENEURS

In addition to the large general increases in the number of small businesses in recent years, more small businesses are being started by young people. Interest in entrepreneurship, particularly among young people, is growing, and almost 50 percent of university students in Canada believe they will one day become entrepreneurs. The Global Entrepreneurship Monitor recently completed a study on youth entrepreneurship in Canada and found the data supports the assertion that young Canadians have a very positive perception of entrepreneurs and entrepreneurship as a career option.³⁹ Examples of young Canadian entrepreneurs include Bryan McCrea and Evan Willoughby who, at age 29, started **3twenty Modular**, a Saskatoon-based company that converts steel shipping containers into temporary offices and housing for the booming resource industry.⁴⁰ The modular units come with heat and plumbing and replace tents or flimsy wood structures. The pair cannot keep up with the demand for their product and have expanded their manufacturing space ten times since the company's inception. Similarly, Rebecca Cotter of Toronto is experiencing success in her business **Water-on-Wheels**, or WOW. Cotter started the mobile water station business at age 27 after becoming disgusted with the number of plastic bottles in garbage cans at special events. Her company allows people to fill reusable water containers for free, and she charges event partners for her service. Event planners like the turnkey solution WOW provides with its own cooling system, tents, and staff—all of which results in lower clean-up costs when an event ends.⁴¹

As youth unemployment remains high, starting their own business is an attractive career option for many younger Canadians. A cost-of-living sample shown in **Small Business Beginnings 1-1** outlines why starting a business is an ideal option for recent graduates. Further, a recent survey of Canada's fastest-growing small businesses indicated that the average age of the owners was about 40.⁴² Organizations such as **Enactus** have been formed in Canada to provide networking and information for these young entrepreneurs. In addition, government and private organizations have recognized the importance of young entrepreneurs in lending programs offered by the Business Development Bank of Canada (BDC) as well as **Futurpreneur**. Annual awards are also made to top Canadian youth entrepreneurs by the BDC.



Young entrepreneurs Bryan McCrea and Evan Willoughby created 3twenty Modular, an innovative, prefab design solution for permanent commercial, institutional and retail developments. Their company is now the industry leader in the country.

Photo courtesy of 3twenty Modular

SMALL BUSINESS BEGINNINGS 1-1

WHY STUDENTS AND RECENT GRADUATES SHOULD START A BUSINESS

Amanda MacDonald was thrilled. She had just received her teaching licence in New Brunswick and landed a job. Her starting salary was \$50,000 a year, and she was excited to be earning a great pay-cheque doing the job she loved. With her new income, MacDonald thought that her worries about money were over. Unfortunately, a short time later, she started to wonder if she could afford to maintain her apartment on her salary and was considering selling her car. MacDonald was quickly learning that \$50,000 a year was not that much money after all.



Here is MacDonald’s monthly cash flow statement:

MacDonald’s monthly take-home pay \$2,500

Less MacDonald’s monthly expenses:

Rent	\$600
Car and insurance	\$400
Gas	\$150
Food	\$400
Phone/cable/Internet	\$200
Student loans	\$150
Entertainment	\$100
Clothing	\$100

This left MacDonald with only \$400 a month for other expenses and no money for savings, and she could not imagine saving enough for a down payment on a condo she wanted to buy. Furthermore, she was disappointed that she had only \$100 a month for entertainment. Rather than take a part-time job to supplement her income, MacDonald started a small business teaching four-year-olds to read.

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MacDonald works at her own business on Saturday and Sunday mornings and is making an extra \$300 a week or \$1200 a month. Rather than being concerned about money problems, she is saving for a dream vacation and considering buying a house. What MacDonald has learned is the secret that many Canadians already know: if you can find a way to supplement your income, even by a small amount, it can make a big difference in your lifestyle. You can go from living in an apartment to owning a house or a condo, driving a new car versus driving an old car, and saving money versus living paycheck to paycheck.

SENIOR ENTREPRENEURS

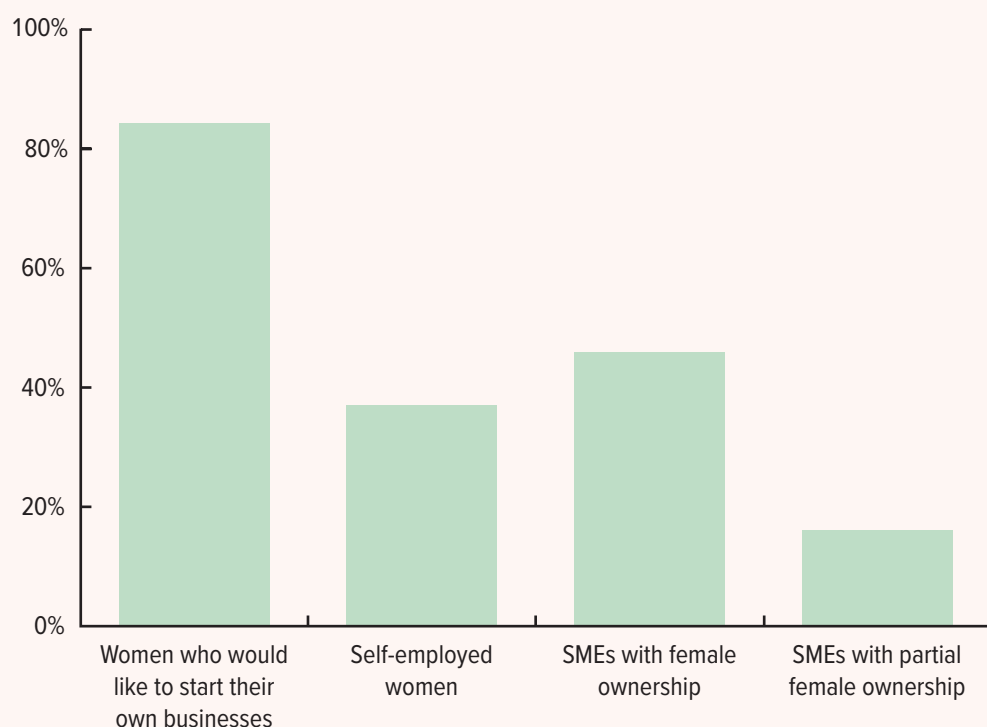
Recently, more senior citizens have become entrepreneurs in Canada. Older entrepreneurs are currently the fastest-growing segment in the small business sector, and long-term demographic trends indicate that they will become an even more significant part of the economy in the future. In addition, a large number of older Canadians are strongly considering working in some capacity after they retire.⁴³ For example, Corin and Brian Mullins founded HapiFoods Group Inc., a firm based in British Columbia that is best known for its breakfast cereal **Holy Crap**. The retired couple came up with their idea for a healthy breakfast cereal after Brian developed food allergies and sensitivities. The cereal was originally sold at farmers' markets, netting the couple approximately \$60,000. A trip to CBC's *Dragons' Den* quickly accelerated growth for the business, and the day after their segment aired they had \$1.5 million in sales and reached over \$5 million within a year.⁴⁴ Unlike the Mullins, many older entrepreneurs share a unique characteristic in business in that they do not want their businesses to grow. They are content to have a business that will provide some income but also allow them to maintain a balanced lifestyle.

FEMALE ENTREPRENEURS

Self-employment among women has increased rapidly in recent years. From 1976 to 2018, the number of self-employed women tripled, from 311,600 to 1,079,000 accounting for 37 percent of all self-employed people.⁴⁵ While the likelihood of being self-employed has grown considerably for both men and women over the past 20 years, the rate of growth has been stronger for women. Statistics Canada found that 47 percent of small and medium-sized businesses in the country have some degree of female ownership, with 16 percent majority-owned by women.⁴⁶ In addition, a great number of women are also aspiring entrepreneurs: a recent survey found that 85 percent of women are interested in starting a business.⁴⁷ Another study found that 27 percent of female managers in corporate settings intend to leave their employer to start their own businesses. Reasons cited are dissatisfaction and frustrations with their current employment.⁴⁸ Increasingly, female entrepreneurs are well educated (24 percent have a university education), and many are over age 55.⁴⁹ Many of the examples and profiles in this text describe the significant contributions of female entrepreneurs in Canada. See **Figure 1-3** for summary facts on female entrepreneurs.

This growth in female entrepreneurship is not limited to North America; a Global Economic Entrepreneurship study found that over 40 percent of entrepreneurs starting new businesses were female.⁵⁰ Organizations such as Women Entrepreneurs of Canada (WEC) and Women Presidents Organization (WPO) have increased the political power and networking opportunities for female entrepreneurs.

The majority of self-employed women in 2018 worked in the service sector (83 percent); female owners are less likely to participate in international business and are slightly less innovative than men. The backgrounds of male and female entrepreneurs tend to be similar, but women have a tendency to start their businesses later in life. Women are also more likely to work at their businesses on a part-time basis compared to men and, as a result, work fewer hours. Statistics Canada reports that roughly 40 percent of women run their businesses part-time compared with less than 15 percent of men. While some women are running part-time businesses, many more are like Marie-Philip Simard, founder of Chic Marie, working full time at managing growing companies. She is featured in **Small Business in Action 1-3** in this section.

FIGURE 1-3 Facts about Female Entrepreneurs**SMALL BUSINESS IN ACTION 1-3****FASHIONING AN ONLINE BUSINESS**

Montrealer Marie-Philip Simard says the idea for **Chic Marie** resulted from a conversation with colleagues at her law firm and her desire to be an entrepreneur. Simard says she was bored at work and was discussing with some other women how much they spend on clothes a year and was surprised by the amount. She decided to conduct some research and discovered that North American women buy 64 new pieces of clothing a year but only regularly wear 22 items. The result is two thirds of new clothing sits unworn in a closet. Simard thought that there must be a better alternative for women who want to update their wardrobe without buying so many new items. From this idea, Chic Marie was born. Chic Marie is an online women's clothing rental business. Each month women received nine new items which they can integrate into their wardrobe and when the month is over, they ship them back. Simard says her company will dry clean the clothes and then send them off to next customer. Of course, if women love an item, they can purchase it from Chic Marie at a discount based on its rental history.

Simard says she originally thought customers would mainly be corporate clients, but the business serves all demographics. She says corporate clients can opt for the \$95-a-month membership for their business attire. The \$65-a-month membership supplies non-corporate attire, a more casual line of clothes perfect for going out with friends, on a date, or other social activities. In addition, Chic Marie has embraced the use of Artificial Intelligence or AI with their Scarlett app. Scarlett uses knowledge it gathers from a customer's past rental and purchase history as well as their social media activity to create clothing packages for clients, thus ensuring customer satisfaction.

Chic Marie has grown quickly, reaching \$500,000 in revenue in year one with expectations to reach \$4 million in sales in year two. Such rapid growth does come with a few hurdles. The company needed to expand the number of designers they work with to access clothes and needed money to purchase inventory. In 2018, the company worked with 40 designers but planned to grow the number to well over 100 within the year. Simard has also had to raise money from investors. She says she

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left her well-paid job as a corporate lawyer and moved back in with her parents to save money, but rapid expansion has put pressure on her to bring in capital to acquire resources to grow. While she did successfully raise funding, she recalls being a woman in the start-up world has caused some challenges. Simard notes she sent her initial business proposal to investors and only one actually replied. As a bit of a social experiment, she had a male colleague send off the exact same proposal to the same investors and he received six responses. She notes that the lack of women in start-ups, especially tech start-ups, does impact her ability to raise capital but it is something she will overcome.

Simard currently has Chic Marie in expansion mode with an increase in marketing activity in Ontario and the United States.

Discussion Questions

1. What are some of the advantages and disadvantages of the Chic Marie business model?
2. Do you think Chic Marie will be a long-term success? Why or why not?
3. Simard is quickly expanding her business both in Ontario and into the United States. Do you think this is a good idea? Why or why not? What are some advantages and disadvantages of pursuing expansion?
4. Were you surprised Simard experienced some initial difficulty in raising capital? Why or why not?
5. There are many monthly subscription services. Working either in a small group or independently, develop some products you think would fit well into this subscription model. Be sure to justify the choices, identify target markets, and how you would appeal to customers.
6. Use Internet resources to find out about the current state of Chic Marie's business. Has the business model remained the same? Has the company reached its expansion goals?

IMMIGRANT ENTREPRENEURS

A large number of Canadian entrepreneurs are immigrants to Canada or have parents who were immigrants. Close to one in five of the self-employed in Canada today are immigrants, almost double the rate observed in the 1980s. Examples include the Hadhad family who started Peace by Chocolate, profiled in the **Small Business Beginnings 1-2**, in Antigonish, Nova Scotia, after fleeing Syria in 2016. The family started selling chocolates out of a shed, and within a few months were employing 10 people. Today, Peace by Chocolate is being sold throughout North America and has grown to 45 employees.⁵¹ Other examples include Frank Stronach, one of Canada's most successful entrepreneurs, who came to Canada in his early 20s. He started a small Toronto machine shop, where he logged such long hours that he often slept on a cot rather than go home. Stronach grew this small machine shop into Magna International, a global supplier of automobile parts, and accumulated a net worth of \$1.2 billion.⁵² Well-known entrepreneurs Arlene Dickinson and Robert Herjavec, both of whom have become famous on CBC's *Dragons' Den* as investors and successful entrepreneurs, are also immigrants. Dickinson has made her fortune in the communications industry, while Herjavec's success came mostly in information technology (IT). Both share a similar story: they came to Canada as children, and their families had very little. Dickinson, who emigrated from South Africa, recalls that her parents arrived in Canada with \$50 to support a family of five, while Herjavec's family emigrated from Croatia, arriving in Canada with \$20. Many immigrants become entrepreneurs because they speak little English or French and lack the networks to find traditional employment. In addition, many immigrant communities in large Canadian cities offer support for would-be entrepreneurs, including advice, start-up funds, and access to established networks.

SMALL BUSINESS BEGINNINGS 1-2

PEACE BY CHOCOLATE

The Hadhad family were well-known chocolatiers in their native Syria. Under father Assam Hadhad's leadership, they had a factory in Damascus, Syria, and were shipping their unique chocolates all over the Middle East when war broke out in their country. With their factory and most of Damascus destroyed, the family fled to a Lebanese refugee camp. They lived at the camp for three years until qualifying to come to Canada.



Once they arrived in Canada in 2016, the family moved to the small community of Antigonish, Nova Scotia, where community leaders had fund-raised to sponsor the Hadhad's immigration. To welcome the Hadhads to Canada, they were invited to a potluck and Assam made some of his chocolates in their new home. The chocolates were the hit of the gathering and soon afterwards the Hadhads started to sell their chocolates at local farmer's markets. Sales grew quickly and soon the family wanted to open a retail location. A short time later, 60 members of the community came together to build the Hadhads a small shed that would serve as the first store front. Tariq Hadhad, Assam's son and current CEO of the family company, says the community rallied around the family and the support from the local people was incredible.

As sales grew, so did news about the company. Soon people across Canada were talking about the Syrian family's entrepreneurial skills and their chocolates. Prime Minister Justin Trudeau spoke about the Hadhads at the United Nations, and the company was featured in dozens of news stories. The Hadhads also wanted to give back, ever thankful that Canada welcomed them into their country. While still starting their new company, the company donated money to Fort McMurray charities after the fire in 2016, and the company produced some specialty chocolate bars to celebrate and embrace Pride.

As their sales continued to grow, the Hadhads began looking to expand. They worked out an agreement with Sobeys, who had an empty building in the town: Sobeys would supply the building and Peace by Chocolates would supply Sobeys with chocolates. With the new factory in place, Peace by Chocolate required more help; they hired 10 employees in 2017 and employed 45 by 2019. Antigonish mayor Laurie Boucher says the Hadhads have been an inspiration to the small rural community. Boucher says that Hadhads have given people hope that entrepreneurship can work in rural parts of Nova Scotia.

Still looking to give back, the Hadhads have recently committed to hiring 50 refugees by 2022 and mentoring 10 refugee startups. As of 2019, Peace by Chocolate is available in over 400 Canadian locations with online sales throughout the world.

Discussion Questions

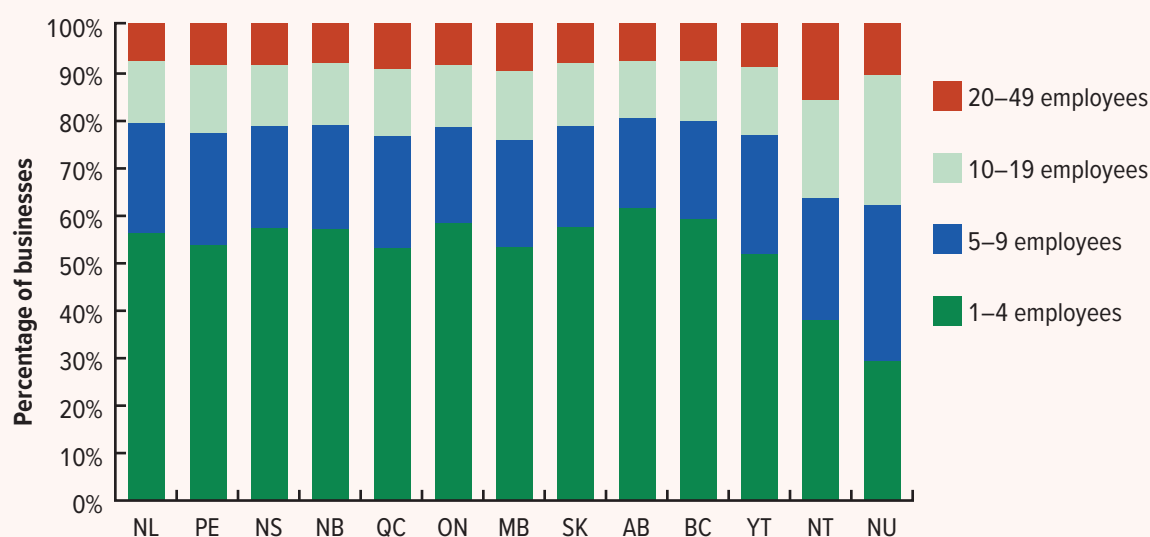
1. The Hadhad family has been quite successful in public relations (PR). The business has been featured in numerous articles and on television. What are some of the advantages of this type of marketing? Do you think the business will be able to maintain this positive PR long term? Why or why not?
2. What do you think would be some of the advantages and disadvantages associated with starting a business in rural Nova Scotia, specifically Antigonish, which has a population of approximately 4300 people.
3. Do you think Peace by Chocolate should be considered a social enterprise? Why or why not?

ENTREPRENEURIAL ACTIVITY BY INDUSTRY

As in other countries, Canadian small business activity is more dominant in sectors that are not capital intensive, such as the service industry. Statistics Canada has found that 99 percent of Canadian SMEs would be classified as service or service related businesses. For example, Cameron Ritchie from Fredericton started Homework while still attending high school. The company which specializes in connecting students with odd jobs in New Brunswick was recognized in 2018 as Canada's young entrepreneur of the year by Startup Canada.⁵³

ENTREPRENEURIAL ACTIVITY BY REGION

Although small businesses exist in all areas of Canada, some regions seem to be more fertile areas for growth. **Figure 1-4** shows that the economies of all provinces and Yukon are dominated by small businesses with one to four employees. Among the provinces, Manitoba has the lowest percentage of businesses with fewer than five employees, while Alberta has the highest. Small businesses with fewer than ten employees make up more than 70 percent of the total share, while businesses with fewer than 100 employees represent more than 90 percent of the total businesses in every province and territory. Alberta and Ontario have seen the most rapid growth in self-employment over the past decade, and this trend is expected to continue.⁵⁴

FIGURE 1-4 Number of Small Businesses by Province and Territory, December 2017

Source: Statistics Canada, Business Register, December 2017, http://www.ic.gc.ca/eic/site/061.nsf/eng/h_03090.html#table5 (Table 5).

CONTRIBUTIONS OF SMALL BUSINESS LO4

The size of the small business sector is not the only reason that it is important to Canada. The following sections discuss other significant benefits of small business to Canadian society.

LABOUR INTENSITY

Small businesses are generally more labour intensive than large companies. This means they typically employ more people to produce a certain level of output than a larger business does. In this era of concern about employment levels, it is not surprising that current government policy includes incentives to promote the establishment of small businesses.

INNOVATIONS AND INVENTIONS

Individuals in small businesses have been responsible for a majority of the inventions and innovations that society benefits from today. Small firms produce approximately 58.3 percent of innovations.⁵⁵ Among important twentieth-century innovations by Canadian small firms are the smartphone, insulin, the snowmobile, the pacemaker, the washing machine, the IMAX movie system, and the television. Potential innovations being developed by Canadian entrepreneurs include a portable Zamboni for backyard rinks, an underwater communications system, a one-handed ice cube tray, and a spacecraft docking system. The tech industry is another area where small Canadian companies have found success, as we discuss in **Small Business in Action 1-4**. Even innovations within larger companies are often made by individuals who are rewarded for their entrepreneurial creativity. Studies show that small businesses have six “innovation enablers” that make them more likely than large corporations to innovate.⁵⁶ These are personal passion, customer connection, flexibility, experimentation, resource limitations, and information sharing. Recent studies show that small and medium-sized businesses do, in fact, invest more money in research and development as a proportion of their revenue compared with large firms.⁵⁷

SMALL BUSINESS IN ACTION 1-4

INNOVATION IN NEW BUSINESS—A SOCIAL MEDIA SUCCESS STORY

Ryan Holmes, CEO of Vancouver-based HootSuite (hootsuite.com), a social media dashboard, is hoping his innovative company will grow into an Internet giant. Founded in 2008, Holmes' social media dashboard allows companies to manage multiple social media campaigns from one central website. Essentially, HootSuite allows companies to send messages to a variety of social media sites, including Twitter, Facebook, LinkedIn, and Pinterest from one central location. HootSuite can also be used with YouTube, Instagram, MailChimp, Reddit, Storify, Tumblr, and Vimeo. The business offers some of its services for free but charges a premium if a company wants to post information to more than five sites. In addition, HootSuite bills clients for its social media analytical tools, which provide companies with insight as to what consumers are saying about both their social media campaigns and the company in general. Businesses like sending messages to multiple sites using HootSuite because it saves them time and money. Over 15 million large and small businesses are using HootSuite, and the company boasts that both the Prime Minister's Office and the U.S. President's Office, as well as more than 80 of the Fortune 100 companies, are using its services. Holmes has seen a rapid appreciation of the firm's value: HootSuite was estimated to be worth \$6 million in 2010, \$500 million in 2013, and more than \$1 billion in its most recent round of financing.



Canadian entrepreneur Ryan Holmes, founder and CEO of Hootsuite, a social media dashboard, saw the value of his company climb from \$6 million in 2010 to \$1 billion today.

Simon Dawson/Bloomberg via Getty Images

Discussion Questions

1. What are some of the advantages and disadvantages of using a product like HootSuite for your company?
2. Given that many consumers are becoming increasingly concerned about privacy rights, do you think HootSuite or companies that use its social media tracking tools could be subject to public backlash against monitoring social media use and activities?
3. If time permits, visit HootSuite's website, and try the free tools. Report back to the class if the tools worked as you expected. Prepare a summary of the features HootSuite can offer businesses.

PRODUCTIVITY AND PROFITABILITY

During the twentieth century, the conventional wisdom was that the larger the organization, the greater was the opportunity to be more productive and profitable. As a result, both business and government have tended to increase in size. However, the validity of this thinking has been questioned in recent years and shown to be empirically weak.

Large businesses are also recognizing the gains in productivity associated with smallness. Of the eight attributes of success listed by Peters and Waterman in their study of successful corporations, no fewer than six are commonly found in small businesses.⁵⁸

1. Bias for Action.

These organizations have found that a preference for doing something—anything, rather than sending an idea through endless cycles of analyses and committee reports—encourages new ideas and creativity. This principle seems typical of most successful businesses.

2. Staying Close to the Customer.

Small businesses learn about customer preferences and cater to them. They are generally closer to and have more contact with the customer. Larger organizations spend considerable amounts of money to maintain this closeness.

3. Autonomy and Entrepreneurship.

Breaking the corporation into small companies and encouraging each unit to think independently and competitively has become a strategy of many large businesses.

4. Productivity through People.

Creating the awareness in all employees that their best efforts are essential and that they will share in the rewards of the company's success is a major goal of profitable companies. In small businesses, owner and employees typically share in the rewards of success and the disappointments of failure.

5. Hands On—Value Driven.

Many organizations insist that executives keep in touch with the firm's essential business and promote a strong corporate culture. A popular method of management, known as management by walking around, testifies to the realization that management needs to be familiar with the firm's employees and the operation of the business. The successful owner-manager follows this principle faithfully.

6. Simple Form—Lean Staff.

Few administrative layers, with few people at the upper levels, is characteristic of many successful businesses. In many small businesses, employees have direct access to the owner-manager. This arrangement increases the flexibility of the organization and improves employee morale.

FLEXIBILITY

Small businesses are generally able to respond more quickly than large businesses to changes in the economy, government policies, and competition. For example, Kelsey Ramsden, owner-operator of **Belvedere Place Development**, based in British Columbia, and one of *Profit* magazine's Top Women Entrepreneurs, reinvented her business when the economy went into the most recent recession. At that time, almost all Ramsden's clients came from government sources, and the number of competitors doubled almost overnight. Competitors were desperate for work and they were driving down the price of government contracts. Rather than compete, Ramsden expanded the company into private sector work, which resulted in a three-year growth rate of 804 percent.⁵⁹

Many markets can be served by only small businesses because the areas are too small or too localized for large companies to serve profitably. This situation alone presents countless opportunities for entrepreneurs. For example, Ingonish in Cape Breton sits on the world famous **Cabot Trail**, a vacation destination that draws thousands of visitors each year with its majestic coastal drive, national parks, and golf courses. Yet the tourism operators are not large businesses or national chains, as the region, even with strong tourist numbers, is too small to support big firms.

CANADIAN OWNERSHIP

The percentage of Canadian ownership, a major concern of economic nationalists in Canada, tends to be much higher in small business than in large business.⁶⁰ Of businesses operating in Canada with less than \$2 million in sales, less than 1 percent are foreign owned.

SMALL BUSINESS HEALTH AS A LINK TO ECONOMIC GROWTH

Considerable evidence exists that economies that provide the most encouragement for entrepreneurship and small business have experienced the highest growth rates since the 1950s.⁶¹ Recognition of this fact by many centrally planned economies has resulted in more encouragement of entrepreneurship, with the associated

potential of rewards for those engaged in this type of productive activity.⁶² This recognition may also have contributed to the dramatic changes that have occurred in these countries in recent years. One key finding of the second annual study by Global Entrepreneurship Monitor, which examines new and growing business in 21 countries, was that a country has a better chance of achieving economic well-being if it supports entrepreneurial activities.⁶³

SOCIAL CONTRIBUTIONS

Small business owners often have a long-term interest in the communities in which their businesses operate. As a result, they contribute to those communities in nonbusiness ways to a greater extent than an employee of a large corporation might do. In a recent survey conducted by 76 percent of entrepreneurs think they have a moral obligation to give back to their communities through philanthropic endeavours. When asked about the amount their business contributed to social causes in the last year, entrepreneurs reported they donated an average of 9.3 percent of revenues, including cash donations, in-kind donations, and employee time.⁶⁴ Some entrepreneurs, such as Kalen Emsley, David Luba, and Derrick Emsley, are using their philanthropic donations as part of their overall marketing strategy. The three young business partners are co-owners of Ten Tree Apparel, an environmentally friendly clothing brand that plants ten trees for every item it sells. The company's website, tentree.ca, maintains an active count of the trees the company has planted to date and highlights the business' ongoing success. The business was recently featured on CBC's *Dragons' Den*, where the entrepreneurs won accolades for being one of the top ten presentations in the history of the show.⁶⁵



Kalen Emsley, David Luba, and Derrick Emsley are using donations as part of their marketing strategy. Their company donates ten trees for every product you purchase. Consumers love the concept, and the trio's business is growing more quickly than they could have imagined.

Photo courtesy of Ten Tree

SMALL BUSINESS AND THE FUTURE

LO5

An important question for present and future entrepreneurs and policymakers is, What effects will changes in our society have on the small business community? As mentioned at the beginning of this chapter, the 1970s and 1980s were a period of entrepreneurial revolution. Moreover, the late 1990s through the 2000s determined that changes were in fact permanent adjustments to the Canadian business environment.⁶⁶ Essentially, entrepreneurship has become engrained as part of Canada's society. Now as we progress through this decade from 2010 to 2020, interest and demand for entrepreneurship appears to be growing. Several developing trends have potentially positive implications for entrepreneurs, if entrepreneurs' actions in response are the result of

insight, research, and careful planning. Some of the more significant factors that will affect the future of small business are discussed briefly in the following sections.

The world is now undergoing a period of rapid change, and this is expected to continue. Businesses carry out their activities very differently today than they will ten years from now. Flexibility will likely continue to be a competitive strength for the entrepreneur. Changes in technology, the Internet and mobile technology, consumer demographics and buying patterns, the competitive aspects of markets, the economy, the political climate, and the social climate will likely be significant factors.

TECHNOLOGY

Technology has revolutionized the activities of both small and large businesses. Ted Glendening, Vice President of Corporate Development at Nortek, says technology has allowed smaller businesses to compete on an equal footing with their large counterparts.⁶⁷ Computers allow the entrepreneur to manage large amounts of information as effectively as a larger business. Such advances have created significant small business opportunities. Financial management and accounting, marketing research and planning, promotion, and consulting are areas in which small businesses, many of them home-based, have succeeded.

New technology has also allowed small businesses to obtain subcontracts for many services from larger businesses and government organizations that are unable to or choose not to carry out these activities themselves. Despite these potential opportunities, however, small businesses must be prepared to embrace new technology or face the possibility of obsolescence and lack of competitiveness.

Increased performance in the areas of customer service, marketing, and manufacturing, and improved communications are all benefits an entrepreneur can achieve through the use of technology.

THE INTERNET AND MOBILE TECHNOLOGY

The Internet and mobile technologies, such as cloud computing, smartphones, and tablets, have forever changed how businesses operate and have levelled the playing field between large and small firms. Small businesses can now serve global markets once out of reach, create professional marketing and social networking campaigns, and communicate with stakeholders at a fraction of what it used to cost. An article in the *National Post* sums this up when the author notes, “The Web has lowered the bar for people with skills and ideas. People don’t need a development team or a big budget; they just need a good idea and a laptop.”⁶⁸ For example, Mike McDerment of Toronto-based **FreshBooks**, an online accounting company aimed at servicing small businesses, when he was 23 years old. FreshBooks has 24 million customers spread throughout the globe, all of whom pay approximately \$19.95 a month for its accounting services. The Internet has also provided entrepreneurs with opportunities that did not exist in the past. For example, Vincent Cheung started **ShapeCollage Inc.**, an online application that allows users to arrange their photos into a collage in a variety of shapes. Cheung’s software has been downloaded over a million times, and he recently won the Ontario Entrepreneur of the Year award.

CONSUMER DEMOGRAPHICS

Demographics plays a significant role in shaping the types of businesses entrepreneurs start. If there are large segments of the population in a certain age category to which a business caters, then the likelihood of success increases as a result. Of particular interest to most businesses are the baby boomers, those born between 1946 and 1964, and their children, known as the “echo generation” or “millennial generation,” who were born between 1980 and 2000. Entrepreneurs are interested in these two groups because of their large size and spending habits. Baby boomers are the second-largest segment of the population, composing close to two-thirds of the Canadian population, and remain the most significant demographic group due to their buying power. Baby boomers are known to be materialistic and interested in health care, fitness, and travel. The millennial generation is also an attractive market for business owners and the largest in Canada. This generation is well educated

and interested in the environment, social causes, and technology. This group has started to get married, buy homes, and have families. Millennials are interested in career coaching, investing, travel, and the betterment of their children. Since this group is having fewer children than their parents did, and having them later in life, they are willing to spend more money and time on their development. For example, Shaindy Alexander, owner of Toronto-based **Momma Goose Products**, produces a premium line of teethingers made from organic cotton and untreated maple wood among other items. Alexander, who now sells her teethingers in 13 countries, says, "Millennials will invest in quality and in products that are healthier for their children."⁶⁹

COMPETITIVE ASPECTS OF MARKETS

Two major occurrences in recent years have affected the already intensely competitive environment that most small businesses face. The first is the worldwide movement to global markets, augmented by recent developments in Europe. The second is big business' response to the growth of the small business sector.

Global Markets.

The world is currently experiencing a major shift to the globalization of markets. The erosion of domestic and international market boundaries means that smaller businesses should have increased opportunities to source, produce, and deliver to international markets. As a result, many small businesses will eventually include an international aspect in their operations. The signing of the North American Free Trade Agreement was a major occurrence for Canadian businesses because it gave them access to more than 380 million consumers in the United States and Mexico.⁷⁰ The agreement eliminated tariffs, offered Canadian companies much greater and surer access to markets in Mexico and the United States,⁷¹ and disallowed prohibition of most services.⁷² NAFTA is in the process of being updated and replaced by the new USMCA agreement. While not ratified at the time of writing this text, the agreement appears to further open up trade between the nations in greater depth and detail. For example, once the agreement is ratified, online companies will be able to sell upwards of \$150 across borders with no duties. While the news may not be good for brick-and-mortar retailers, it could be a boon to Canadian small businesses selling products to the over 300 million American consumers.⁷³

Other events which have led to trade liberalization include the defeat of communism in the Eastern European bloc countries, which created new opportunities for entrepreneurs. Consumers in these countries have an insatiable appetite for Western products and services. As remaining barriers and purchasing power problems are overcome, these areas will offer huge untapped markets.

Another development that has affected Canadian entrepreneurs is the European Union (EU). The EU is the largest single common market, with a \$18.8 trillion economy and 508.2 million consumers. The EU allows for free trade between member nations and uses protective tariffs to keep out goods from non-member countries. Although Canada is not a member of the EU, in 2016 the federal government agreed to participate in a free trade agreement called the Comprehensive Economic and Trade Agreement; it came into force in 2017. As a result of this agreement, Canadian business owners have access to a large market that would likely be interested in many Canadian products and services. And in 2016, Canada agreed to participate in the Trans Pacific Partnership Agreement. The agreement includes twelve countries and four continents, and would give Canadian businesses access to 800 million potential customers.⁷⁴

The market with perhaps the most potential for Canadian entrepreneurs in the future is in Southeast Asia in countries such as India, and, most notably, China. China's population of more than one billion alone represents a massive market. These areas are also increasingly receptive to Western goods and services.

Large Business Response.

Small businesses have always had difficulty competing with large businesses, particularly for such things as capital, raw materials, and labour. This situation is not expected to change appreciably in some industries. Financing problems continue to plague small businesses. Despite new programs, influence over suppliers by large businesses is strong, and wage rates paid by larger organizations and government are often too high for the smaller business to meet.

In addition to the difficulty of matching wage rates, labour shortages continue. This will increase the competition for competent employees even more. Small businesses will need to find ways to retain top employees through non-financial methods. One survey of small business owners indicated that close to half see labour shortages as a major concern for small business.⁷⁵

One positive and often overlooked aspect is that many large businesses and government agencies are increasingly downsizing and subcontracting (outsourcing) the purchase of products and services to small business. It is estimated that close to one-half of small businesses become established through outsourcing with another business.⁷⁶ Many small businesses are also joining together through such means as industry associations in an attempt to be more competitive. Such a collaborative relationship, however, often runs against the grain of the entrepreneur's independent nature.

Large businesses in some industries have recently adopted strategies employed by smaller businesses to recoup lost market share. The adoption of entrepreneurial programs in product development (intrapreneurship), the increased attention to customer service, and the addition of some small business operating policies have enhanced the growth and success of smaller enterprises.

THE ECONOMY

The performance of many small businesses is directly related to the Canadian economy. For the better part of the last decade, the Canadian economy has been experiencing steady growth along with the global economy. The growth has benefited the small business sector because, as people have more disposable income, they are more likely to be employed and more likely to make purchases. In 2019, the Canadian economy appears to be slowing due to weaker oil prices, higher borrowing costs, and a decline in global trade.⁷⁷ One positive result of the decline was the fall in the value of the Canadian dollar, making goods manufactured in Canada cheaper in the rest of the world. During slow periods and downtime, small companies increase their focus on innovation to a greater degree than large businesses do.⁷⁸ Learn how one company took advantage of a change in the economy in **Small Business in Action 1-5**. However, certain economic occurrences affect many small businesses negatively by adding to increased costs and decreased customer traffic for some of Canada's key industries and industrial areas.

SMALL BUSINESS IN ACTION 1-5

ECONOMIC DOWNTURN PRESENTS OPPORTUNITIES

While many businesses suffer significantly when a recession or downturn in the economy occurs, **Warren Industries Ltd.** is an exception. Warren is an automobile parts manufacturer located in Concord, Ontario, that is predicting a three-fold increase in sales contracts over the next three years and a doubling of its staff over the next four. The secret, according to David Freedman, president and CEO, is that a couple of years before the recession, they began developing a strategy to make the company more resilient and adaptable to change. They became more aggressive in obtaining business rather than sitting back, cutting costs, and waiting until the tough times passed. The company bolstered its engineering staff so that it could develop more of its own products and move up the value chain rather than rely on outsourcing as it had done in the past. It became more aggressive in negotiating with hungry suppliers. The result has transformed Warren into a tier 1 supplier that develops innovative and highly engineered products that it can now sell directly to customers.



Felix Alim/E+/Getty Images

Discussion Questions

1. Why do you think some companies fail to plan for a downturn in the economy?
2. Do you think it is ethical for businesses to negotiate deep price cuts from suppliers? Why or why not?
3. What ongoing actions do you think an entrepreneur should engage in to sustain a business for the long term?

THE POLITICAL CLIMATE

Over the last decade, the political climate for small business ownership seemed to be improving. This was evidenced by attempts to reduce the burdens of paperwork and provide tax incentives to small businesses. For example, the Canadian government has prioritized cutting red tape and reforming regulations under its 2019 Red Tape Reduction Action Plan. Under the plan, red tape will be reduced and regulations will be reviewed taking into account their impact on small business.⁷⁹ According to the Global Entrepreneurship Monitor, entrepreneurship is fostered as governments reduce state involvement in economic activities and instead promote entrepreneurship at the cultural level.⁸⁰ The World Bank states that out of 190 countries, Canada ranks third in ease of starting a new business.⁸¹

The federal government has attempted to encourage entrepreneurship with incentives for immigrant entrepreneurs to enter the country. Special visas are provided for immigrants who invest in small business. These entrepreneurs have injected considerable capital into the Canadian economy.

Although there is considerable interest in government circles in reducing government involvement in business and encouraging entrepreneurial activity,⁸² most small business proponents are still waiting for significant action to take place.⁸³ A recent report by the Canadian Federation of Independent Business (CFIB) states that small businesses are especially hard hit by regulation, as it takes time and money away from other more productive activities. This also puts them at a competitive disadvantage with respect to larger businesses that can afford individuals or whole departments devoted to regulatory compliance.⁸⁴ Small businesses state repeatedly that some of the major concerns about the business environment are high taxes, regulations, and paper work burdens imposed by government, and ineffective government programs.⁸⁵ A recent study by CFIB estimates that Canadian businesses spend \$36.2 billion per year to comply with regulations imposed by government.⁸⁶ Continued collective lobbying efforts through organizations, such as CFIB, are required to achieve a political environment more conducive to the establishment and successful operation of small businesses.

THE SOCIAL CLIMATE

Society tends to look favourably on small business and entrepreneurial activities as a legitimate way to make a living. An Angus Reid survey indicated that entrepreneurs have the highest level of respect from Canadians, edging out doctors, police officers, and teachers.⁸⁷ As discussed earlier, the Global Entrepreneurship Monitor reports that Canadians view entrepreneurs very favourably and think quite highly of entrepreneurship as a career option. More and more college and university graduates are beginning their careers by starting their own businesses, joining the ranks of the many people who left the once secure confines of large business to strike out on their own. Although this trend is expected to continue, adequate preparation and planning will increasingly be required to achieve success following this route. In addition, a structural shift has occurred in Canada to a strong culture of individualism and self-betterment that has resulted in a more accepted and positive attitude toward the small business sector.⁸⁸

The onus is now on entrepreneurs as prospective owner-managers to sharpen their skills in this competitive and rapidly changing society. An owner-manager in today's world cannot survive on guesswork. Numerous programs, courses, and types of assistance are available to allow the owner-manager to acquire this training. The remaining chapters in this book cover the critical areas a prospective owner-manager should be familiar with in starting and operating a successful small business.

LEARNING OBJECTIVES SUMMARY

- LO1** The entrepreneurial revolution is evidenced by the growing numbers of business establishments, employees in small businesses, government small business programs, college and university small business classes, and entrepreneurial activities of large companies.
- LO2** Although defining a small business is difficult, having a definition is important when comparing and evaluating small businesses, as well as when taking advantage of various lending and assistance programs. Some common criteria for defining small businesses are gross sales, number of employees, profitability, and type of management structure.
- LO3** Small business accounts for 98 percent of all businesses, 30 percent of gross domestic product, and 48 percent of the labour force in Canada.
- LO4** Small businesses can provide jobs, innovations, high productivity, flexibility, a higher proportion of Canadian ownership, and more contributions to society.
- LO5** The climate for starting a small business should continue to be strong despite some competitive disadvantages.

TIME TO TAKE ACTION

If you are reading this book, it is most likely because you have some interest in entrepreneurship. We hope this chapter has convinced you that entrepreneurship can be a rewarding career choice and something you can achieve. If you want to start down the entrepreneurial path, or have to write a business plan for a course you are taking, completing some of the following steps will help you with your goal.

On a notepad or using your smartphone, start to jot down ideas about a business you may want to start.

Watch some TV shows such as *Dragons' Den* to see some small business ideas and to get some insight into what investors may be looking for in a successful business.

Talk to some entrepreneurs. Do not make it an official interview, but ask them out for coffee and find out why they started a business. What suggestions do they have for aspiring entrepreneurs? Run some of your business ideas by them, and find out what they think.

DISCUSSION QUESTIONS

1. Why do you think entrepreneurial activity has increased? Do you think this trend will continue? Why or why not?
2. What excites or interests you about being an entrepreneur? What are your major concerns?
3. Under what conditions would the various definitions of small business be more appropriate (e.g., the level of profit may be used by Canada Revenue Agency to determine the small business tax rate)?
4. What is meant by the statement "small business is the backbone of the Canadian economic system"? Give evidence to support this statement.
5. The computer consulting business is becoming more and more fragmented. In data processing, for example, there are hardware versus software consultants, batch versus time-sharing service bureaus, and mainframe versus microcomputer specialists. What effect does this type of industry fragmentation have on the small business community?

EXPERIENTIAL EXERCISES

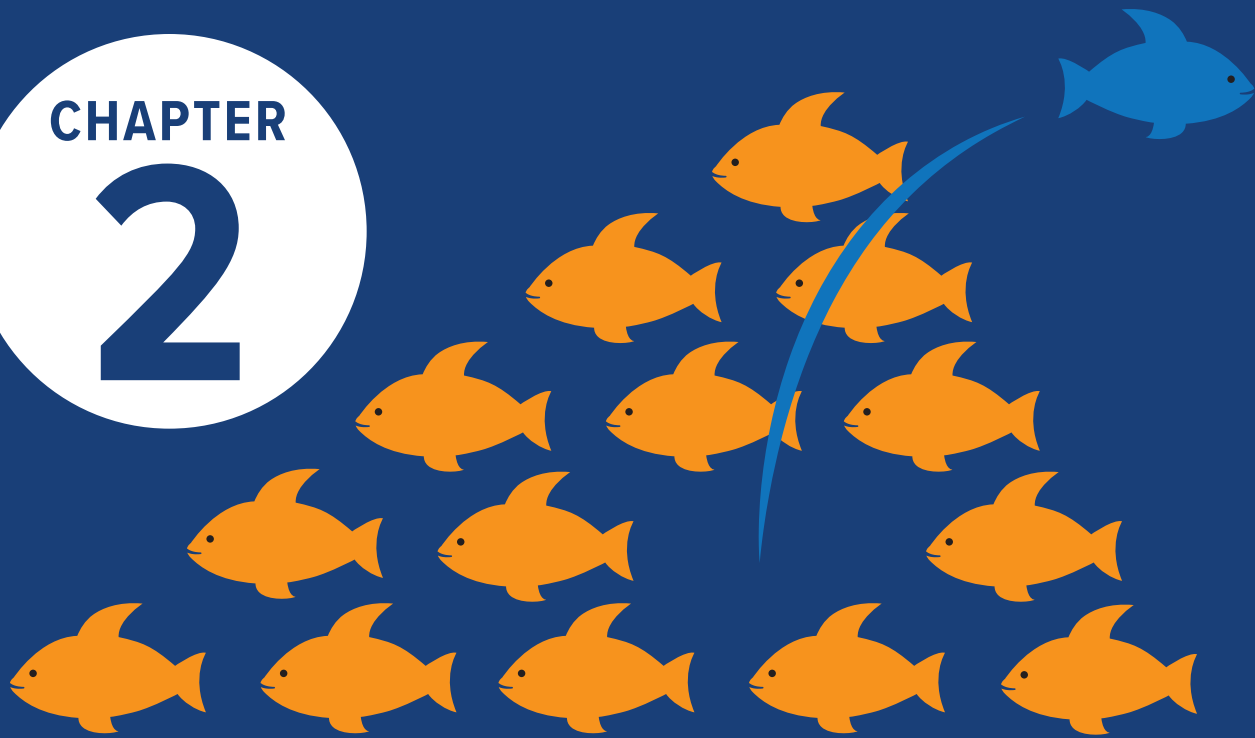
1. Form groups of two to three, and start a small business or mini-venture that will run for four to six hours. There are only four rules:
 - a. The business has to be legal
 - b. No lotteries
 - c. Maximum investment of \$1
 - d. Businesses must cease operations at day's end.

After completing the project, write a reflection stating what you did, whether you made a profit, and what you learned. You may also present this information to the class.

2. Ask three small business owners about their projections for the future of small business. What problems and opportunities do they foresee?
3. Using Internet resources, find out how different Canadian organizations define social enterprise. After preparing a summary report on your findings, draft your own definition of the term.
4. Write a short essay discussing your views on the future of small business given current trends in society *and* in your geographic area.

CHAPTER

2



THE SMALL BUSINESS DECISION

LEARNING OBJECTIVES

By the end of this chapter, you should be able to:

- LO1** Summarize the advantages and disadvantages of business ownership as a starting point in making the small business decision.
- LO2** List the personal and organizational attributes of a successful small business owner.
- LO3** Explain the reasons some businesses succeed and others fail.
- LO4** Identify the differences between an entrepreneur and a manager.
- LO5** Describe entrepreneurial development in large businesses.

SMALL BUSINESS PROFILE

XAVIER PEICH & GABRIEL ALBEROLA SMARTHALO

Ideas for successful businesses can come from anywhere. Some ideas can come from a deliberate search, where an entrepreneur is looking for the next great business idea. Other times ideas can come from personal experiences—both good and bad. Xavier Peich notes that he came up with the idea for SmartHalo, a bicycle accessory that turns any bike into a smart bike, after a particular run of bad luck riding his bicycle around Montreal. Peich says he was trying to use his phone to navigate through the city streets and the phone slipped out of his hands breaking the screen. A short time later his bike was stolen. Peich, who was looking for a business to pursue with his long-time friend Gabriel Alberola thought their had to be a simple solution to some of the many problems bikers face in navigating city streets. Together the pair formed the company CycleLabs and developed the concept of SmartHalo which they affectionally describe as a bike companion.

SmartHalo, which attaches to the handlebars of any bike, marries together several features cyclists are looking for including a GPS, alarm system, fitness app, messaging notification system and a headlight which switches itself off when the bike is not in use. The SmartHalo accessory also comes with a protected locking system so it cannot be stolen. SmartHalo attachment works in conjunction with the user's phone and the SmartHalo app to provide bikers with an improved biking experience.

SmartHalo's design and ease of use has led it to be championed by such influential publishers as *Times*, *Forbes*, *Fortune*, and *CBC*. The Halo uses Bluetooth technology to link your phone's GPS to the attachment. A rider simply uses their phone's GPS to select a desired location and the Halo becomes operational illustrating the correct path using lights that are easy to see and follow. If the rider misses a turn the Halo flashed red indicating the need for a U-turn. The GPS alone has been described as a significant improvement over using your phone as a GPS. In addition to the GPS feature, the SmartHalo offers cyclists a variety of desired features that are easy to use. The SmartHalo can act as a compass, allowing riders to select their own route to a desired destination; has a light that automatically turns on as the sun sets and



Photo courtesy of SmartHalo

shuts off when the cyclist stops biking; will sound an alarm if someone is attempting to steal the bike; serve as a fitness tracker, allowing riders to track their progress as they peddle; and act as an assistant by notifying riders to incoming calls and messages.

Peich and Alberola with their concept in hand then did what many aspiring entrepreneurs are doing today, they opted to skip traditional market research, and bring their product directly to consumers using the crowd-funding site Kickstarter. They initially were hoping to raise \$67,000 in pre-orders for SmartHalo but exceeded that goal on day one and raised almost \$540,000 over the course of their month-long Kickstarter campaign. The large influx of cash and pre-orders proved that the concept was a viable product and the pair started to work on building their business. The SmartHalo founders partnered with other companies to manufacture SmartHalo including Osedea, a mobile app developer, Mapbox, a GPS mapping company, and Optech, a design optics lab. Roughly 18 months after their Kickstarter campaign started, SmartHalo was being shipped to eager consumers.

CycleLabs continues to push SmartHalo and now has the product available in all Apple stores in North America and Europe. Consumers can also purchase the accessory at Best Buy and Amazon. The company is currently working on alternate maps to allow cyclists to maximize their riding experience and considering expanding the attachment to work as a guide for tourists.

SMARTHALO
smarthalo.bike/

THE SMALL BUSINESS DECISION: PERSONAL EVALUATION

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An important but often difficult part of making the small business decision is to separate this decision into two parts: personal considerations and those related to the business or the opportunity. Each will be discussed in this chapter. In contemplating whether to start their own businesses, individuals are well advised to consider the potential consequences of such a move, both for themselves and for their families and friends. Failure to do this can lead to disillusionment, frustration, and an unsuccessful attempt to capitalize on a viable business opportunity. Frequently, the entrepreneur finds that the reasons for continuing in a small business are different from the reasons for start-up. Therefore, a good way to begin this evaluation is to learn the potential advantages and disadvantages of starting and operating your own business. In addition, understanding the personality characteristics and abilities required of an entrepreneur, as well as making an honest self-appraisal of your own suitability, is essential in making an intelligent small business decision.

ADVANTAGES OF SMALL BUSINESS OWNERSHIP

Running your own business offers some unique advantages over being an employee. Numerous small business owners cite the following advantages.

Independence.

Often, independence is the primary reason for going into business for yourself. This includes the freedom to make your own decisions without having to ask a superior. One study of successful entrepreneurs indicated that the majority started their businesses to “control their own lives” or to “be their own boss.”¹ Kenzie MacDonald left his job as vice-president at Colliers International, a global commercial real estate firm, to start his own company in Halifax. MacDonald stated that the main reason for leaving his job was a strong desire to be his own boss: “I wanted to be in charge, to do things the way I wanted to do them. . . . When you work as an employee for years, you’re always answering to someone. . . . It’s nice to be able to make all the decisions, to be in control.”² Young Toronto entrepreneur Bill Hennessey, owner of RoyalPak, a cleaning-products manufacturer, and Oxford Beach, an events planning company, echoes MacDonald’s comments about independence: “As an entrepreneur, you control your own destiny. I work the hours I want to work, and I take vacations when I want to take vacations.”³

Motherhood offers entrepreneurial opportunities that may offer work-life balance, as discussed in **Small Business in Action 2-1**. In a recent TD Bank survey, 95 percent of entrepreneurs cited being their own boss and independence as the main reasons they like being an entrepreneur. Additionally, Statistics Canada has cited the desire for independence as the main motivator for starting a business. Entrepreneurs should realize, however, that even though they own their businesses, they must still answer to customers, suppliers, key employees, and creditors. Increased independence allows many entrepreneurs to better balance work and family commitments. A study by CIBC World Markets found this to be important to 79 percent of entrepreneurs.⁴



Young entrepreneurs like Bill Hennessey love the independence entrepreneurship provides.

Photo courtesy of Bill Hennessey, RoyalPak Inc.

More Personal Contact with People.

Running a small business usually means making contact with a large number of people, including customers, suppliers, and employees. Those who enjoy and are skilled at working with people find such interactions the most rewarding aspect of their businesses.

Skill Development.

Abilities in many functional areas of management are necessary to run a small business and can be developed during the process. Often, possessing such skills makes an individual more sought after in larger organizations. Today, many progressive and innovative organizations look for employees who have had small business experience. For example, David Reynolds of Halifax, while attending Mount Saint Vincent University, founded Quick-snap, a plastic clip that eliminates the need to tie shoelaces. Reynolds, who eventually sold the company after a successful appearance on CBC's *Dragons' Den*, says the skills and knowledge he gained by running a company helped him find a job after he graduated: "After I graduated, I had experience running and growing a business and a track record in sales. Several companies wanted to hire me because they knew I could sell, and they liked that I had acted entrepreneurially when I was in university."

Potential Financial Rewards.

The higher risk associated with operating a small business offers the possibility of a higher financial return. As the old saying goes, "you cannot get rich working for someone else." Owning a business provides entrepreneurs with unlimited earnings potential—something that is attractive to many. For example, Ryan Smolkin, owner of **Smoke's Poutinerie**, one of Canada's fastest-growing franchises had started two businesses before he was 25 years old. Smolkin made so much money from the sale of his branding company, Amoeba, that he retired! But he soon developed the entrepreneurial itch again and started his growing restaurant franchise. Other people are starting entrepreneurial ventures to supplement traditional income. In a recent RBC poll on Canadian Entrepreneurship, of the roughly 54 percent of Canadians with entrepreneurial intentions, 56 percent of them have already started earning money entrepreneurially. Most often these businesses are in areas the person is passionate about, such as a hobby or a recreational activity (28 percent), and they are testing a business idea (8 percent).⁵ For example, Jeremy Hannan of Toronto was passionate about snorkelling, so he started CobraMask to supplement his income as a wood finisher. Hannan noticed that traditional snorkelling masks often resulted in water flowing into the breathing apparatus and non-traditional masks that solved the problem were quite expensive. So Hannan created CobraMask, a full-face, premium snorkelling mask at a non-premium price. With year one sales in excess of \$100,000, Hannan has more than supplemented his income and is considering running his new business full time.⁶



Jeremy Hannan started CobraMask to supplement his income. His idea for a more effective and affordable mask has led to Hannan becoming a full-time entrepreneur.

Photo courtesy of CobraMask

Challenge.

Many people start small businesses for the challenge as well as the feeling of personal accomplishment. A study of Canadian entrepreneurs' perceptions of the ideal workplace indicated that work offering a challenge is most important.⁷ And an Angus Reid poll of entrepreneurs indicated that the most common reason for starting a business was "the appeal of doing something interesting and challenging."⁸ For example, Heidi Fortes, founder of the chic cannabis accessory company **Accoutrements**, says that she enjoys entrepreneurship and all the challenges that come with running her own business and, although there can be ups and downs, entrepreneurship is a rush and rewarding.⁹ Ronald Richardson, co-founder of **Benbria Corp.**, a software company based in Kanata, Ontario, echoes Fortes and notes the rewards, challenges, and learning opportunities outweigh the risks of entrepreneurship.¹⁰ In fact, some people leave larger companies because their positions lack the opportunities and challenges a small business can offer. Fortes left a successful sales career to pursue her entrepreneurial dream. Other examples include Tonia Jahsha, from Ancaster, Ontario, founder of the social selling company **Steeped Tea**. Jahsha left her high-paying job in electronics to start selling loose tea at parties and eventually adopted the social selling or direct sales model. In a few short years, Steeped Tea has grown to have 9000 consultants who sell their products at parties and social gatherings, and Jahsha has been recognized as one of Canada's leading female entrepreneurs.¹¹

Enjoyment.

Most successful entrepreneurs enjoy what they do. As mentioned above, entrepreneurs tend to get their best ideas from their hobbies, activities they are passionate about.¹² When we researched this text and read countless interviews with entrepreneurs, both successful and unsuccessful entrepreneurs told us they loved being their own boss. Research indicates that 90 percent of entrepreneurs would start their business again, and in a national survey conducted by TD Bank, two-thirds of business owners described themselves as very happy. For example, Traci Costa from Richmond, British Columbia, founder of Peekaboo Beans, a children's clothing company producing trendy clothes that allow children to play freely, says she loves being an entrepreneur. She confirms that starting her own business was the best decision she has ever made.¹³ Costa's words are echoed by entrepreneur Betsy Hiebert, founder of Winnipeg-based, My Care Necessities, who has created an easy-to-use journal that allows seniors to keep track of their health care. Hiebert says she loves owning her own business, even with all its challenges, and how the various projects associated with being a business owner stretch her to grow.¹⁴ The Entrepreneurial Research Consortium found that one of the top motivators for starting a business was having a passion for the field.¹⁵ This factor explains, in part, why financial rewards are not necessarily the prime motivation for establishing a business.

SMALL BUSINESS IN ACTION 2-1

MOMPREENEURS



Mompreneurs, such as Sarah Davis, have started businesses to achieve work–life balance. While some mompreneurs stay small, others, like Davis, have grown multi-million-dollar companies.

AP photo/Lenny Ignelzi/CP Photo

Some women are attracted to entrepreneurship as a way to achieve work–life balance. For example, many mothers have started their own businesses so they could be personally in charge of their own work schedule, which allows them to spend more time with their families. In fact, mother entrepreneurs have become so common that they have become known in the mainstream media as "mompreneurs." *Mompreneur* is defined as a female business owner who is actively balancing the role of mom and the role of entrepreneur. Sometimes when people hear the term "mompreneur," they imagine a mother operating a very small business, but this is not always the case, and many mompreneurs are managing growing businesses. For example, Maria Locker is the founder and CEO of **Mompreneur Showcase Group Inc.**, a company that operates *MOMpreneur Magazine*, which is dedicated to assisting other mompreneurs in running successful companies.

in Canada. Other examples include Sarah Davis, owner of **FashionPhile.com**, an online site that sells used high-end purses and bags. Davis, who originally started the company by selling her own branded clothing on eBay, discovered that high-end accessories such as handbags held their value so well that used items were selling at close to retail prices. Davis' company, which guarantees its products are authentic, had sales in excess of \$57 million last year.

Discussion Questions

1. Given the challenges associated with starting and running a business, do you think being a mompreneur allows for more work–life balance compared with traditional work or part-time employment?
2. What do you think are some of the advantages and disadvantages of being a mompreneur?
3. What do you think are some business ideas that would allow work and life balance?

DISADVANTAGES OF SMALL BUSINESS OWNERSHIP

Although there are many advantages to owning and operating a small business, there are several often overlooked disadvantages. We will discuss some of these next.

Risk.

The failure rate of small businesses is very high. One of the key reasons for Canadians' hesitancy to start a small business is the risk of failure.¹⁶ In Canada, about 85 percent of small to medium-sized businesses survive the first year, 70 percent make it through year two, and 50 percent last more than five years. There are many potential reasons for these failures, but the major causes appear to be inexperience and unbalanced management.

Stress.

Studies show that small business owners have high stress levels, a high incidence of heart disease, and a high rate of divorce owing to the increased pressures of managing their businesses.¹⁷ Many sources of stress are due to the individual nature of entrepreneurship, where the business owner ultimately makes final decisions and is responsible for the success or failure of the company. For example, Josh Horowitz, owner of **Sell My Stuff Canada**, a Toronto-based company that specializes in content or estate sales, says that while he loves being his own boss, he does feel the pressure of being responsible: "There's no one higher up," he says. "You're the last line of defence when a tough question comes up. It's a quick learning curve."¹⁸ Colin McDonald, co-founder of **Clearwater**, a Halifax firm he grew from a small business to a publicly traded company, echoes Horowitz's comments: "Being your own boss is stressful. When we were a small company, I would look around the room and think that I had to make sure there was enough money to pay everyone at the end of the week. I still think that from time to time."¹⁹ In owning a business, it is difficult, if not impossible, to confine concerns about the business to the workplace. Typically, these pressures will affect the entrepreneur's personal life and family situation as well.

Limited Financial Rewards.

Although the possibility of high earnings exists, relatively few small business owners become extremely wealthy. The financial rewards are often very meagre, especially during the first few years. A Royal Bank of Canada survey found that while 42 percent of new entrepreneurs expected their income to be higher after starting their business, only 34 percent of them achieved this.²⁰ Even businesses that grow rapidly are not necessarily as profitable as you might think. The Canadian Federation of Independent Business reports that although a few small business owners do very well financially, the majority earn less than the average paid employee.²¹ Statistics Canada found that the median income of self-employed individuals was 91.4 percent of the median income of paid employees²² and that employees of small businesses earned only 85 percent of the income of employees in large businesses.²³ Heidi Fortes, owner of the company *Accoutrements* discussed above, says you can essentially become broke running your own business. She says it's a particularly large adjustment for people who leave paid employment. Fortes notes entrepreneurs should be prepared to invest all their profits back