

Appendix

Entrepreneurship and Small Business

The Nature of Entrepreneurship and Small Business

- ▶ Entrepreneurs create a business or product and manage their resources and take risks to gain a profit.
- ▶ Entrepreneurship is the process of creating and managing a business to achieve desired objectives.
- ▶ A small business is one that is not dominant in its competitive area and does not employ more than 500 people.

TABLE A.1 Great Entrepreneurs of Innovative Companies

| Company | Entrepreneur(s) |
|-------------------------|-----------------------------|
| Hewlett-Packard | Bill Hewlett, David Packard |
| Walt Disney Productions | Walt Disney |
| Starbucks | Howard Schultz |
| Amazon.com | Jeff Bezos |
| Dell | Michael Dell |
| Microsoft | Bill Gates |
| Apple | Steve Jobs |
| Walmart | Sam Walton |
| Google | Larry Page, Sergey Brin |
| Ben & Jerry's | Ben Cohen, Jerry Greenfield |
| Ford | Henry Ford |
| General Electric | Thomas Edison |

TABLE A.2 Small Business Administration (SBA) Qualifying Factors for Assistance

- Operate for profit
- Be engaged in, or propose to do business in, the United States or its possessions
- Have reasonable owner equity to invest
- Use alternative financial resources, including personal assets, before seeking financial assistance

Source: U.S. Small Business Administration, “SBA Financial Assistance Eligibility,” <http://www.sba.gov/content/sba-financial-assistance-eligibility> (accessed October 15, 2013).

The Role of Small Business in the American Economy

- ▶ Small businesses are vital to the soundness of the American economy because they fuel
 - Job creation—Two-thirds of net new jobs are created every year by small businesses, and they contribute approximately half of annual GDP.
 - Innovation—A strength of small businesses is their ability to innovate, bring significant changes and benefits to customers, and stimulate the economy.
 - Opportunities for minorities and women—These opportunities are sometimes unavailable in larger firms because of prejudice and other factors.

TABLE A.3 Number of Firms by Employment Size

| Firm Size | Number of Firms | Percentage of All Firms |
|-----------|-----------------|-------------------------|
| 0–19 | 5,160,404 | 90.0 |
| 20–99 | 475,125 | 8.3 |
| 100–499 | 81,773 | 1.4 |
| 500+ | 17,236 | 0.3 |

Source: United States Census Bureau, “Statistics of U.S. Businesses (SUSB) Main,” 2010, [www.census.gov](http://www.census.gov/econ/susb/index.html), <http://www.census.gov/econ/susb/index.html>, (accessed November 12, 2013).

Industries That Attract Small Business

- ▶ Small businesses are found in nearly every industry, but retailing, wholesaling, services, and manufacturing are especially attractive to entrepreneurs because they:
 - Are relatively easy to enter
 - Require low initial financing
 - Provide an opportunity to focus on a specific group of consumers
 - May experience less heavy competition
- ▶ While, traditionally, small businesses have been strongest in low-technology areas, they are now moving into the high-technology area at a rapid pace.

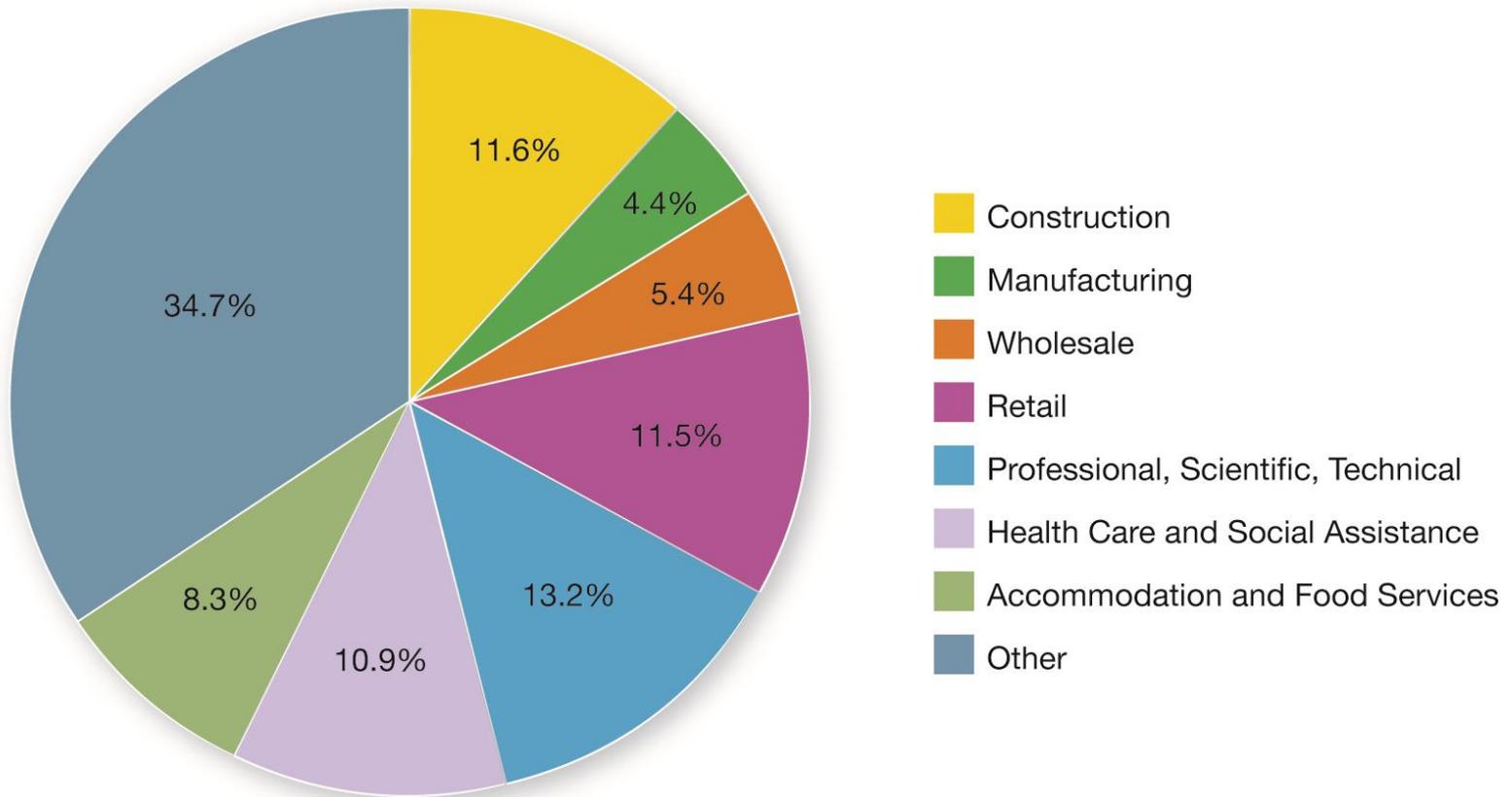


FIGURE A.1 The Relative Proportion of Small Business by Industry in the United States

Source: United States Census Bureau, "Statistics of U.S. Business," 2010.

Reasons for Small-Business Success

- ▶ Small businesses often succeed because of their owners':
 - Vision, hard work, and long hours
 - Desire for independence and autonomy
 - Ability to pinpoint market opportunities overlooked by other firms
 - Flexibility, innovativeness, and rapid decision making
 - Willingness to do their homework in reviewing alternatives and capitalizing on discoveries

TABLE A.4 Reasons Entrepreneurs Start Businesses

1. Desire to be one's own boss
2. Desire to choose the people one works with
3. Desire to fulfill a market or societal need that is not sufficiently being met
4. Desire to make a profit from an invention
5. Desire to contribute to a social and economic good
6. Desire to engage in competition and risk taking
7. Desire to realize one's vision
8. Desire to create something
9. Desire to have a flexible work schedule
10. Desire to generate or supplement income

Causes of Small-Business Failure

- ▶ Small businesses fail for many reasons:
 - Undercapitalization
 - Management inexperience or incompetence
 - Inability to manage growth
 - Poor business concepts
 - High stress
 - Neglect
 - Disproportionate burdens imposed by government regulation
 - Vulnerability to competition from larger companies
 - Insufficient funds to withstand slow sales

Starting a Small Business

- ▶ To start a business, an entrepreneur must
 - Have an idea
 - Devise a business plan to guide planning and development
 - Decide about the form of ownership
 - Determine the financial resources needed
 - Decide whether to buy an existing business, start a new one, or buy a franchise

The Business Plan

- ▶ A business plan is a meticulous statement of the rationale for the business and a step-by-step explanation of how it will achieve its goals.

TABLE A.5 The Components of a Business Plan

- I. Executive Summary
- II. Situation Analysis
 - A. Nature of the business
 - B. Target market
 - C. Measures of performance
- III. Strengths, Weaknesses, Opportunities, and Threats
 - A. Operations
 - B. Financial
 - C. Management
 - D. Political, legal, and regulatory forces
 - E. Economic factors
 - F. Competitive factors
 - G. Technological factors
- IV. Business Resources
 - A. Financial
 - B. Human
 - C. Experience and expertise
- V. Financial Projections and Budgets
 - A. Delineation of costs
 - B. Estimate of sales and revenues
 - C. Expected return on investment
- VI. Controls and Evaluation
 - A. Measures of performance
 - B. Monitoring and evaluating performance

Forms of Business Ownership

- ▶ There are three legal form of business ownership:
 - Sole proprietorships—Businesses owned and managed by one individual and the most popular form of business organization
 - Partnerships—An association of two or more persons who carry on as co-owners of a business for profit:
 - General partnerships
 - Limited partnerships
 - Joint ventures
 - Corporations—A separate legal entity, or body, created by the state; its assets and liabilities are distinct from those of the owners of the corporation:
 - Limited liability corporations (LLC)

Financial Resources

- ▶ The most important source of funds for any new business is the owner.
- ▶ Small businesses can obtain financing from investors:
 - They can sell stock in the business to family members, friends, employees, or other investors.
 - Venture capitalists agree to provide some funds in exchange for an ownership interest, or stock.
- ▶ New small businesses sometimes borrow from:
 - Financial institutions
 - Other businesses in the form of trade credit
 - State and local organizations
 - The Small Business Administration

Approaches to Starting a Small Business

- ▶ Start a new business from scratch.
- ▶ Buy an existing business that already has a network of existing customers, suppliers, and distributors.
- ▶ Acquire a franchise, a license to sell another's products or to use another's name in business, or both.

Help for Small-Business Managers

- ▶ A number of organizations offer programs to improve the small-business owner's ability to compete:
 - Local chambers of commerce
 - Small Business Administration
 - U.S. Department of Commerce

Entrepreneurship in Large Businesses

- ▶ Some large companies are emulating small businesses in an effort to make their firms more flexible, resourceful, and innovative like a smaller business, and to improve their bottom line.
- ▶ This effort often involves:
 - Downsizing (reducing management layers, laying off employees, and focusing work tasks)
 - Intrapreneurship, in which an employee takes responsibility for (champions) developing innovations of any kind within the larger organization