

EIGHTH EDITION

Small Business Management

AN ENTREPRENEUR'S GUIDEBOOK

MARY JANE BYRD

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Small Business Management

An Entrepreneur's
Guidebook

eighth edition

Mary Jane Byrd
University of Mobile





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

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About the Author

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Preface

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

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

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

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

New to This Edition

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

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

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

To the Student

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

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

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

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

Organization of the Book

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

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

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

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

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

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

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

Aids to Learning

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

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

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

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

To the Instructor

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

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

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

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

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

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

Instructor Supplements: McGraw-Hill Connect[®]: connect.mheducation.com

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

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

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

Instructor Library

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

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

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

Student Supplements: McGraw-Hill Connect[®]: connect.mheducation.com

The website includes the following supplements:

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

Important Current Issues Facing Small Business People

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

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

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

Acknowledgments

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

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

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

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

Mary Jane Byrd

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The Dynamic Role of Small Business

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

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

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

Starting Your Small Business

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

—**Former president Ronald Reagan**

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

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

Learning Objectives

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

1. Define what is meant by the term *business*.
2. Name some of the unique contributions of *small business*.
3. Explain some of the current problems small businesses face.
4. Discuss some of the current trends challenging entrepreneurs and small business owners.
5. Explain why people start small businesses.
6. Describe the characteristics of successful entrepreneurs.
7. Describe where the opportunities are for small businesses.
8. Identify some of the areas of concern for small business owners.

PROFILE



Courtesy of Cori Byrd Lowe

Filters—Now

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

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

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

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

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

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

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

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

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

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



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

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

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

It Is an Interesting Time to Be Studying Small Business

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

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

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

The Number of Small Businesses Is Growing Rapidly

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

The Public Favors Small Business

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

Interest Is Increasing at High Schools, Colleges, and Universities

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

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

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

Trend Is toward Self-Employment

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

TABLE 1.1 | Self-Employed by Selected Industry²

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

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

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

Entrepreneurship Is Attractive to All Ages

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

Real-World Example 1.1

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

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

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

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

Real-World Example 1.2

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

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

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

Real-World Example 1.3

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

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

Real-World Example 1.4

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

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

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

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

Defining Small Business—No Easy Task

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

What Is Small?

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

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

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

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

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



Courtesy of Carolyn Stafford Forbes

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

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

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

Source: Small Business Administration.

Distinguishing between Entrepreneurial Ventures and Small Businesses

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

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

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

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

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

Some Unique Contributions of Small Business

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

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

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

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

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

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

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