

# 5

## chapter

# Small Business and the Entrepreneur

*Better Business*

Solomon (Contributing Editor) •  
Poatsy • Martin

# Entrepreneur Basics

- What is an entrepreneur?
- Traits of successful entrepreneurs:
  - Innovative
  - Risk takers
  - Motivated to succeed
  - Flexible and self-directed
  - Work well with others
  - Good leadership skills
  - System thinkers



# Types of Entrepreneurs

- Lifestyle
- Micropreneur
- Growth (gazelle)
- Intrapreneur
- Entrepreneurial team



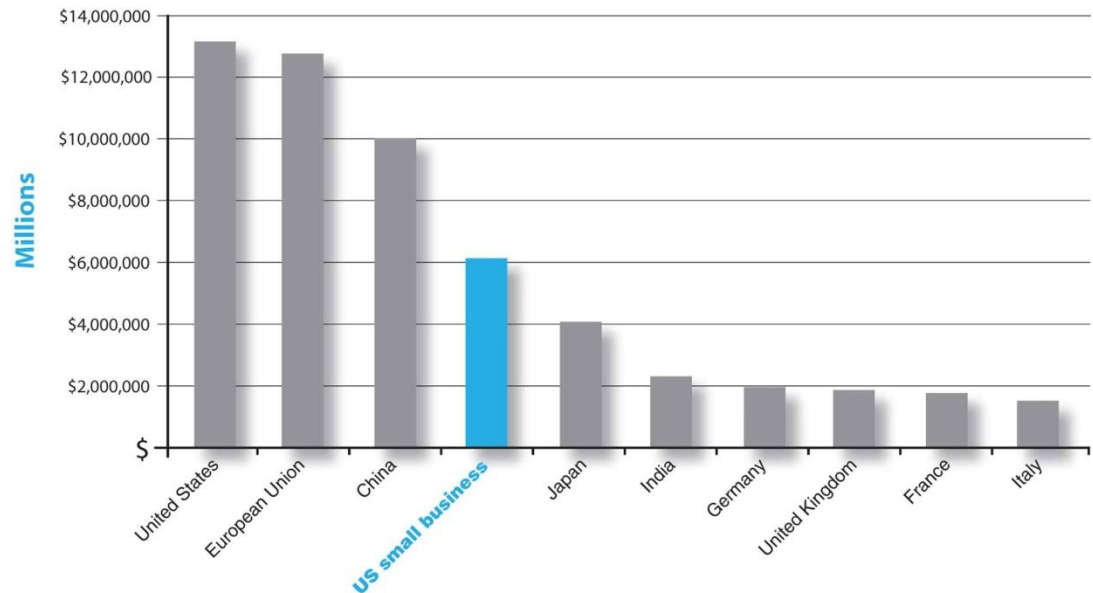
Mark Zuckerberg, Facebook

# Small Business

- A small business:
  - Is independently owned and operated
  - Is not a dominant force in its field
  - In general, has fewer than 500 employees
  - Has an average of \$6.5 million annual revenue (in retail and service industries)

# Small Business and the Economy

- In the U.S., small businesses
  - Provide 40.9 percent of private sales in the country
  - Account for more than half of America's economic output
  - Account for approximately 50 percent of the private workforce
  - Represent 97 percent of all U.S. exporters



# Small Business Contributions

- Foster innovation
- Help bigger companies:
  - Supply products and services to the larger companies that they do not or cannot supply
- Help consumers:
  - Supply products and services that large companies cannot or will not provide

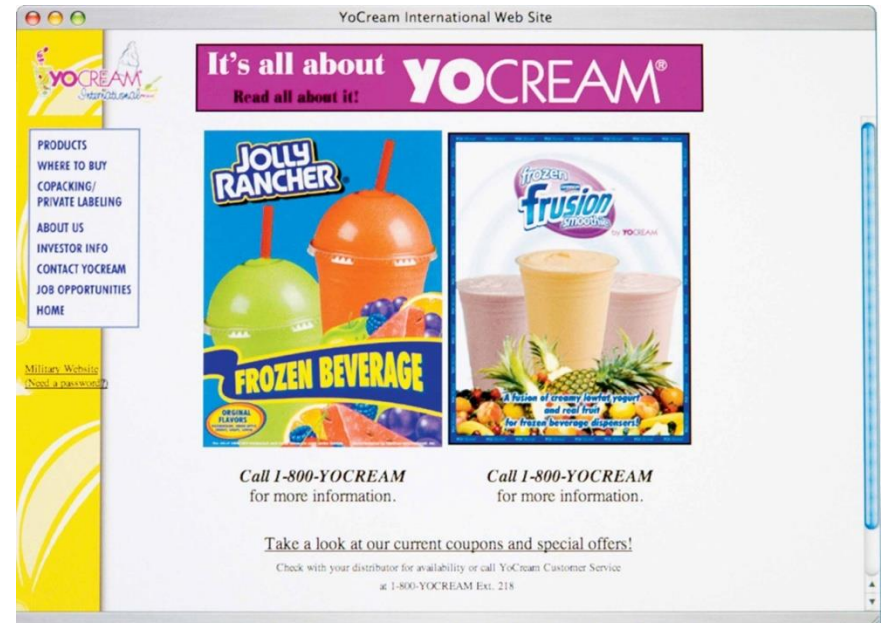
# Small Business and the Workforce

- Create over 60% of new jobs each year
- Employ many who do not fit into a traditional corporate structure
- Provide opportunities for women and minorities

	Women	African Americans	Hispanics
Number of businesses owned by	5.3M	928,000	1.6M
Percent growth in number of businesses (1997-2002)	10%	37%	109%

# The Impact of Technology on Small Business

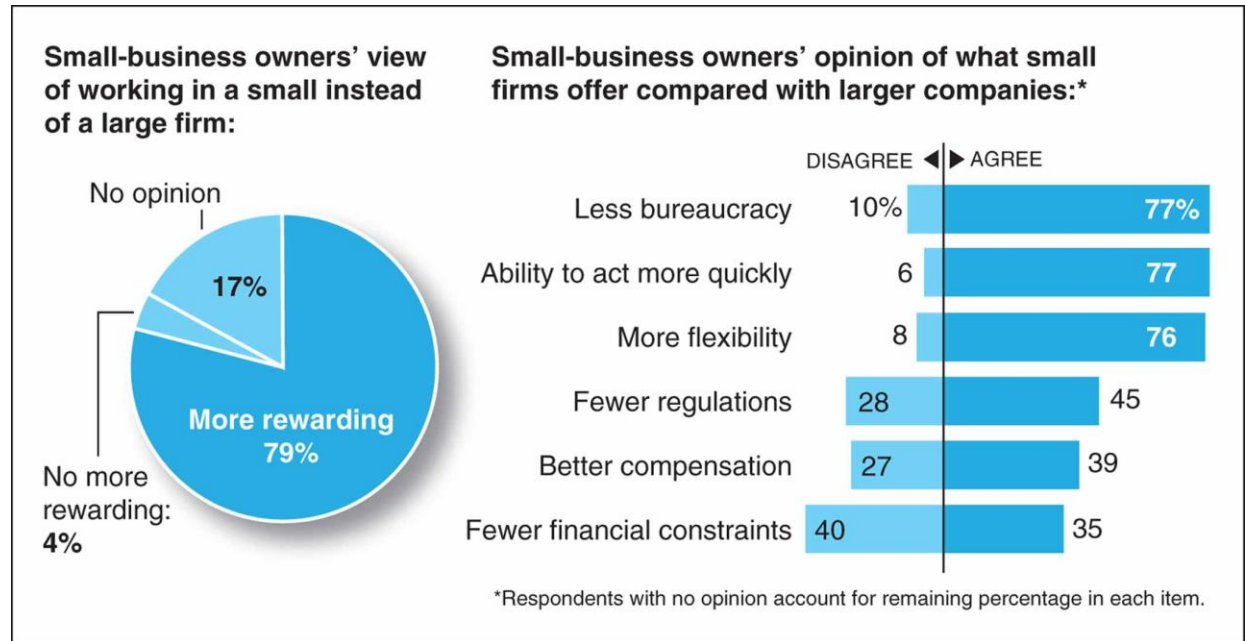
- The personal computer and the Internet have:
  - Created entirely new business opportunities
  - Made starting a new business easier
- Over 80% have a home page
- 33% promote their products through e-mail marketing





# Reasons to Start a Small Business

- Opportunity knocks
- Financial independence
- Control
- Flexibility
- Unemployment



# Small Business Structures

What kind of structure should I choose for my small business?

- Sole proprietorship
- General partnership
- Limited partnership
- Corporation
- Limited liability company



# Franchise Basics

- Franchise
- Business opportunities
- Franchiser
- Franchisee

Top Ten Franchises 2004-2007			
2004	2005	2006	2007
Subway	Subway	Subway	Subway
Curves	Curves	Quiznos sub	Dunkin' Donuts
Quiznos Sub	Quiznos Sub	Curves	Jackson Hewitt Tax Service
7-Eleven Inc	Jackson Hewitt Tax Service	UPS Store, Mail Boxes Etc.	7-Eleven Inc.
Jackson Hewitt Tax Service	UPS Store, Mail Boxes Etc.	Jackson Hewitt Tax Service	UPS Store, Mail Boxes Etc.
UPS Store, Mail Boxes Etc.	Sonic Drive in Restaurants	Dunkin' Donuts	Domino's Pizza
McDonald's	Jani-King	Jani-King	Jiffy Lube International
Jani-King	7-Eleven Inc	RE/MAX International	Sonic Drive In Restaurants
Dunkin' Donuts	Dunkin' Donuts	7-Eleven Inc.	McDonald's
Baskin-Robbins USA	RE/MAX International	Liberty Tax Service	Papa John's International

# Franchising Pros and Cons

## Pros

- Recognized brand name
- Proven system of operation
- Strength in numbers
- Initial training is part of the deal
- Marketing support is provided
- Market research is often provided

## Cons

- Lack of control
- Start-up costs
- Workload
- Competition
- Share problems occurring elsewhere in the franchise

# Questions to Ask the Franchiser

Competition	<ul style="list-style-type: none"> <li>• What is the competitive advantage of the product/service?</li> <li>• What makes the business more attractive to an owner and more attractive to a customer?</li> </ul>
Franchise System	<ul style="list-style-type: none"> <li>• How time tested and standardized is the franchise system?</li> <li>• What franchise system is used and how does it work?</li> <li>• How long has the franchise been in business and what improvements have been made recently?</li> </ul>
Support and Training	<ul style="list-style-type: none"> <li>• How much support does the franchiser give the franchisee?</li> <li>• What is the initial and ongoing training?</li> <li>• Are there toll-free help lines, field support, annual meetings, local meetings, purchasing programs, and marketing promotion?</li> </ul>
Financial Strength	<ul style="list-style-type: none"> <li>• What is the financial strength of the company and the experience of management?</li> <li>• How much revenue comes from franchise fees and how much revenue comes from royalties?</li> <li>• How has the stock performed?</li> </ul>
Franchise Relationships	<ul style="list-style-type: none"> <li>• How important is the franchisee to the franchise?</li> <li>• How can they describe the relationship with the franchiser?</li> <li>• Have there been lawsuits/arbitration? If so, how were they resolved?</li> </ul>

# Questions to Ask Other Franchisees

Competition	<ul style="list-style-type: none"><li>• How is your system better than competitors'?</li><li>• How does your business match up?</li><li>• Who are your competitors?</li></ul>
Franchise System	<ul style="list-style-type: none"><li>• How long have you been in business?</li><li>• Does your location meet your customers' needs?</li><li>• Who selected the site?</li></ul>
Support and Training	<ul style="list-style-type: none"><li>• How is the relationship with franchiser?</li><li>• How was the initial training and ongoing training and support?</li><li>• How are the marketing, advertising, and promotional programs handled?</li></ul>
Financial Strength	<ul style="list-style-type: none"><li>• Are you pleased with earnings?</li><li>• Is volume growing?</li></ul>
Franchise Relationships	<ul style="list-style-type: none"><li>• Do you have second thoughts (would you do this again)?</li><li>• Would you own more units?</li></ul>

# Buying an Existing Business Pros and Cons

## Pros

- Simpler than starting from scratch
- Less start-up time and energy
- May have an existing satisfied customer base
- Might be easier to obtain financing

## Cons

- Purchase price may be high
  - Valuing goodwill may be difficult
- May have lingering customer ill-will from previous owners
- May not keep existing employees, customers, suppliers and distributors—or may keep bad ones

# Due Diligence

- Research and analysis of the business to uncover any hidden problems associated with it

## Things to Consider Before Buying a Business

### Initial Questions to Ask

Why is the business for sale?

What do current customers say?

Are there opportunities for growth? How much time does the current owner put into the business?

Who is the competition?

### Due Diligence Checklist

Get an independent valuation of inventory and equipment.

Have an accountant go over financial statements for the past 3 years.

Have a lawyer analyze pertinent business documents—property leases, employment contracts, etc.

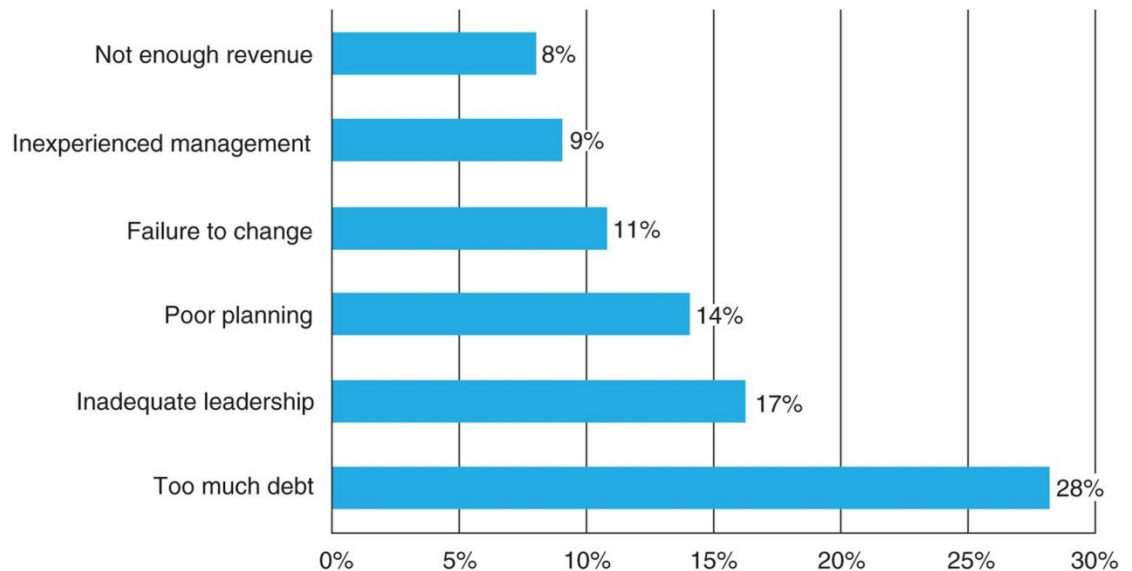
Talk to suppliers to see if they will continue to supply the business when ownership changes hands.

Check for lingering or festering hazardous waste problems. They'll become your responsibility as the new owner.



# Why Do Small Businesses Fail?

- Accumulating too much debt
- Inadequate management
- Poor planning
- Unanticipated personal sacrifices



# Business Plans



# Where Do Small Business Owners Go for Help?

- Small Business Administration (SBA)
- Service Corp of Retired Executives (SCORE)
- Mentoring resources
- Business incubators
- Advisory boards and partners



# Financing Considerations

- Cash
  - Personal savings
- Credit
  - Friends and family
  - Credit cards
- Banks and other loans
- Venture capitalists
- Small Business Investment Company (SBIC)
- Angel investors



# Chapter Summary

1. What are the traits of an effective **entrepreneur**, and how do these characteristics often lead to business success?
2. What is the role and structure of the **small business** within the U.S. economy?
3. What are the advantages and disadvantages of **franchising** within the context of entrepreneurship?
4. Why is a **business plan** crucial to small business success, and what factors lead to small business failure?
5. How do resources, including the **Small Business Administration (SBA)** and mentoring sources, such as the Service Corp of Retired Executives (**SCORE**), **business incubators**, and **advisory boards**, provide assistance and guidance to small business owners?
6. What are the potential benefits and drawbacks of each major source of small business financing?

# **Beyond the Book**

# More Small Business Challenges

- Find stability and balance
- Deal with day-to-day
  - Marketing
  - Operations
  - Financial management
  - Productivity
  - General management
    - Have the right information to make the right decision available at all times
- Use technology appropriately to assist in these areas

# Why Do Small Businesses Succeed?

- Hard work, drive, and dedication
- Market demand for the products and services offered
- Managerial abilities
- Luck



# Fewer SBA Loans

- The total number of SBA 7(a) loans has fallen in all categories
- Comparing January through March 2007 vs. 2008:
  - Loans to women: down 15%
  - Loans to veterans: down 20%
  - Rural loans: down 27%
  - Express loans: down 29%
  - 7(a) loans overall: down 18%



# Bill Gates: The Greatest Entrepreneur of All Time?

## Microsoft

- Founded in 1975
- Incorporated in 1981
- Introduced MS-DOS 1.0 in 1981
- Went public in 1986
- Introduced MS Office in 1989
- Launched Windows 3.0 in 1990
- Had \$51 billion in revenue in 2007

## Gates

- Invented the PC software industry with partner Paul Allen
- Maintained focus and “systems thinking” for 30 years
- Brought in managers to grow the company.
- Named “Entrepreneur of the Millennium” by Entrepreneur magazine

# The Nobel Peace Prize and Micro-Financing

- The award of the 2006 Nobel Peace Prize to Bangladeshi economist Professor Muhammad Yunus has spread his microcredit ideals.
- Microcredits are very small loans, typically less than \$100, made to the rural poor in developing countries who normally do not qualify for traditional banking credit.
- Professor Yunus founded Grameen Bank in 1976 during a famine.
- Today it has 6.6 million borrowers, of whom 97% are women.
- The microfinancing format of Grameen has since spread to more than 40 countries.