

CHAPTER 1: SMALL BUSINESS: VARIETIES AND IMPACTS

Chapter Summary

This chapter overviews the role of entrepreneurship in the United States and discusses the impact that small businesses have on a community as a whole. Basic definitions of entrepreneurship, entrepreneurship, small business, and the main entry methods are provided. The reason entrepreneurs chose to go into business and the actions they must accomplish to be successful are also included. The BRIE model is introduced and described in this chapter.

This chapter is the first of four chapters in Part 1—Entrepreneurs and Ideas: The Basis of Small Business.

Learning Objectives

After studying this chapter, the student should be able to:

1. Understand the scope of small business in the United States.
2. Differentiate between small businesses and high-growth ventures.
3. Dispel key myths about small businesses.
4. Identify actions key to becoming a small business owner.
5. Recognize how small businesses are important to our economy and your community.
6. Recognize the seven key strategies of the entrepreneurial way.

Focus on Small Business: Robin Roth, Pixel Press

Robin Roth was an avid gamer in his youth and designed new levels of his favorite games in his head and on paper. Given that both his parents were entrepreneurs and encouraged him in that direction, it seemed inevitable that Robin would become an entrepreneur himself. Robin's Pixel Press software allowed regular people with no programming skills to create playable games on their Apple devices. Following a successful Kickstarter campaign, Robin took Pixel Press to market, leading to a partnership with Cartoon Network.

Focus on Small Business Discussion Questions

1. **Do you think Robin was originally thinking about starting a business when he was working in programming and marketing positions in other people's companies?**

Most likely, as Robin had already created his own firm, Roundthird, to develop games as his side gig on nights and weekends while honing his programming skills during the day at his regular programming job. As he developed his programming knowledge, project planning skills, marketing skills, and networked with others, he became convinced and he went full time as an entrepreneur given the right idea.

2. What drove Robin to start a business of his own?

Robin credits a constant presence of an entrepreneurial spirit around him from a young age and throughout his education. Robin says himself: “Both of my parents were entrepreneurs and encouraged me early on in things like “baseball card shop not just in our basement but online as well, when making a website was still very hard.”

3. How important were contacts and connections to the growth of Robin’s business?

While working, Robin built a network of contacts that would likely prove useful as he got Pixel Press started. In addition, Robin was active with the Global Student Entrepreneur Awards at his alma mater SLU. He remains active with the program and credits them with continued learning and staying engaged at all levels, which helps him stay fresh and grounded.

4. Do you think Robin would credit his step-by-step approach with the success of his business? What is your opinion?

Student opinions will vary, but Robin’s success was likely enhanced by waiting until the right idea came along to turn him into a full-time entrepreneur.

Objective 1: Understand the scope of small business in the United States

Extended Chapter Outline

STARTING AN ENTREPRENEURIAL SMALL BUSINESS: FOUR KEY IDEAS

Learning Objective 01-01: Understand the scope of small business in the United States.

Objective 1: Understand the scope of small business in the United States

- You can start a **small business** and there are ways to be a success. Consider the four things that Robin did right:
 1. Believe that you can do this
 - That belief in yourself is called **self-efficacy**.
 2. Planning + Action = Success.
 - A plan without action is futile and actions without plans are usually wasted.
 3. Help helps.
 - Those who get help succeed bigger and more often.
 - Skill Module 1.1 will help you find some of the best sources of help on the web.
 4. Do well. Do good.
 - In the long run, you will depend on partners, investors, employees, customers, and neighbors.
- *Entrepreneurial Small Business 7* believes in the power of those four ideas and wants to help you reach your dream of becoming an **entrepreneur**.

Skill Module 1.1: Small Business Online Scavenger Hunt

This module allows students to explore a number of entrepreneurial websites. By the time you have checked out these sites, you will be up to speed on some of the largest and most credible sets of free, high-quality small business information available today.

1. If you wanted to find stories about business in Albuquerque (or run the name of a business from there to see what they have done), which site would give you the biggest selection of local stories?
bizjournals.com, usatoday.com/money/business/, [wsj.com/](http://wsj.com)
2. Which of the following offers you a free business website maker? www.wix.com, sba.gov/, entrepreneur.com/,
3. Which site can connect you to *free* local help for starting and growing your business?
nfib.com/, sba.gov/, inc.com/
4. You can search for patents for free at patents.google.com or [uspto.gov/](http://uspto.gov) Which will also let you search for trademarks?
5. If you want to find out what the profit margins are for businesses in the restaurant industry, which site would give you the answer?
sba.gov/, entrepreneur.com/, bizstats.com/

- The vast majority of new firms go through a similar start-up process. The firms most likely to be successful follow a four-step process, shown in Figure 1.1.
- The Entrepreneurial Process: *Feel* → *Check* → *Plan* → *Do*
 - *Feel*: This is where the entrepreneur has a feeling about maybe starting a business or maybe creating a particular product or service.
 - *Check*: Smart entrepreneurs check the likelihood for success of their idea through feasibility analyses or customer development process, repeating these until they have a winning and saleable idea.
 - *Plan*: Getting from the idea to the business can be done by small-scale, part-time start-ups, lean business practice approaches, pilot testing, business modeling, or business plan creation.
 - *Do*: Regardless of the planning approach you choose to implement your business activity, you will need to refine your approach until you have a successful firm, including additional rounds of refinement and revising.

ENTREPRENEURS ARE EVERYWHERE

- According to the U.S. Census, there were 16.2 million full-time entrepreneurs in the United States in 2020.
 - Entrepreneurs can be found in almost every **occupation**.
 - Table 1.1 shows the 10 occupations with the largest numbers of entrepreneurs as well as the 10 occupations with the highest percentages of entrepreneurs.
 - Note that “owner-managers” are an occupation in their own right but can appear in any other industry.

- Some entrepreneurial careers require college and even graduate degrees, while others have very basic entry requirements.
- Your occupation as an entrepreneur depends on the types of **goods or services** you and your **firm** produce.
- Truly entrepreneurial businesses are characterized by **novelty** in their products, services, or business models.
- Small businesses, on the other hand, are **imitative** in nature, with most small firms doing what other firms do, with only slight variations.
 - In this text, anyone who owns a business is an entrepreneur.
 - A small business owner is an entrepreneur.
 - Someone who is **self-employed** is an entrepreneur.
 - There are several ways in which people become entrepreneurs.
 - **Founders** are people who start a new business.
 - **Buyers** purchase businesses.
 - Others may own a **franchise**.
 - Some may be **heirs** of a family business.
 - After entry, most entrepreneurs become owner-managers.
 - Throughout this text, the terms *small business owner*, *entrepreneur*, and *self-employed* are used interchangeably.

CSI: Entrepreneurship

- Self-employed founders of firms are involved in what the authors call **independent entrepreneurship**.
- Founders of not-for-profit organizations or for-profit **social ventures** are pursuing **social entrepreneurship**.
 - These efforts involve creating new charitable and civic organizations that are financially self-sufficient, or for-profit companies that use much of their profit to fund charities such as Tom's Shoes does.
 - When the focus is more specifically on the planet and ecological issues, we call it **sustainable entrepreneurship** or **green entrepreneurship**.
- Yet another type of entrepreneur, innovative individuals who are employed by others in existing companies are pursuing **corporate entrepreneurship**.
 - In corporate entrepreneurship, the focus is typically on bringing new products or services to market or opening up new markets for a firm.
- Together, these three represent what might be called **CSI entrepreneurship** or the three **forms of entrepreneurship** and people move between the three forms more often than you might think.
- There are two kinds of motivation driving most entrepreneurs.
 - **Opportunity-driven entrepreneurship** is entrepreneurs who are going into business to improve themselves financially or to launch and improve a product or service into the market.
 - The other type is where the person becomes an entrepreneur because they do not see any workable prospects for getting employed by someone else —this is called **necessity-driven entrepreneurship**.

Learn More Online

Corporate Entrepreneurship: Early To Rise earlytorise.com/corporate-entrepreneurship/

Social Entrepreneurship: Ashoka ashoka.org/en-US

Independent Entrepreneurship: *Entrepreneur Magazine* entrepreneur.com/

THE MANY TYPES OF ENTREPRENEURIAL SMALL BUSINESSES

Learning Objective 01-02: Differentiate between small businesses and high growth ventures.

- Firms may be identified as a small and medium enterprise (SMEs), independent small businesses, or owner-managed firms.
 - The number of firms outnumbers the number of entrepreneurs because many entrepreneurs are **serialpreneurs**.
 - For example, Michael Dell sold collectible stamps through the mail when he was nine, making \$2000.
 - His next business was selling newspaper subscriptions by phone from home, he made \$18,000.
 - His third business was reselling IBM PCs from his dorm room at a time when IBM limited sales to official IBM dealers like Sears and IBM's own personal computer stores.
 - It was Michael's fourth business, selling PCs, we know today as Dell Inc.
 - The nine-year-old was Michael Dell.
 - Michael Dell's four businesses point up the difference between small businesses and high-growth ventures.
 - Both may be small when they start.
- Small businesses are usually intended to remain small, generally a size the owner feels comfortable controlling personally
 - For Michael Dell, his stamp, newspaper, and IBM PC resale businesses were designed to be small-scale operation he could handle alone.
 - He did everything himself, and worked when he wanted to.
 - The businesses were conventional, with dozens or even hundreds of competitors all imitating one another.
- High-growth ventures start small but are intended to grow rapidly, often requiring a team of partners or managers to handle the growth.
 - When Dell created a company, he started hiring others to help out.
 - In his fourth business, Dell led the industry because of his **innovativeness**, and other imitated him.
- Small businesses and high-growth venture differ fundamentally in a number of other ways (as illustrated by Table 1.2 and provided below).

Table 1.2
Differences Between Small Businesses & High-Growth Ventures

	Small Businesses	High-Growth Ventures
<i>Preferred funding source</i>	Owner's own money	Other people's money
<i>When the firm's in trouble</i>	Cut costs	Sell more
<i>What's more important</i>	Sales	Marketing
<i>Personal control preference</i>	Retain autonomy	Involve key others
<i>Focus</i>	Efficiency	Effectiveness
<i>Meta-strategy</i>	Imitation	Novelty
<i>External control preference</i>	Control firm	Control market
<i>Grow</i>	When necessary	When possible
<i>Human resources</i>	Personalize	Professionalize
<i>Acceptance</i>	Personal validation	External legitimacy
<i>What limits growth</i>	Loss of control	Market response
<i>Delegation orientation</i>	Delegation is difficult	Delegation is essential

- The **overall growth strategy** describes the kind of business the owner or owners would like to have, from the perspective of how fast and to what level they would like the firm to grow. There are four generic growth strategies:
 - **Lifestyle or part-time firms** are those with sales less than \$25,000 per year that are a supplemental income for the owner.
 - These businesses start and stay very small, often operating seasonally or when the owner wants to work in the business.
 - Growth quickly levels off after the owners operate long enough to learn the basics of making money in their industry.
 - **Traditional small businesses** are the smallest full-time businesses, with schedules defined by customer, not owner, needs.
 - These businesses have sales between \$25,000 and \$100,000.
 - Growth levels off once the business achieves an income that provides a living for the owner and his family.
 - **High-performing small businesses** tend to level off after success defined by sales between \$100,000 to \$1,000,000 range
 - These firms grow at rates of between 5% and 15 % per year; these firms are called **gazelles**.
 - **High-growth ventures** aim to grow over 25% per year and have sales of more than \$1,000,000.
 - These firms aim to become big businesses and pursue high levels of professionalization and external funding.
 - **Unicorns** are at the tip of the group with valuation of one billion dollars or more—such as Uber and Airbnb.
- This text focuses on the 95% of the businesses outside the high-growth sector—not Fortune 1,000 companies—and are typically considered the **Main Street businesses**.

Learn More Online

Start-up businesses: Kauffman Indicators of Entrepreneurship indicators.kauffman.org/
 There are two series:
 Early Stage Entrepreneurship: <https://indicators.kauffman.org/series/earlystage> and New Employer Businesses: <https://indicators.kauffman.org/series/newemployer>
 Startup Cartography Project: www.startupcartography.com
 Data on small businesses: The U.S. Small Business Administration's (SBA) Statistics Page: sba.gov/advocacy/firm-size-data

MYTHS ABOUT SMALL BUSINESSES

Learning Objective 01-03: Dispel key myths about small businesses.

The challenges of small business scare off or derail people. Here are the common myths:

- There's not enough financing.
 - The SBA reports
 - 40% of solo entrepreneurs started with less than \$5000
 - Bank financing has been rising for 10 years as well as funding from family, friends, and angels.
 - New sources of financing are available with **crowdfunding**.
 - You can create websites, blogs, and **drop-shipping** businesses for free using online platforms.
 - **Bootstrapping** techniques are methods to minimize your cost of doing business, such as using your local coffee shop as your “virtual office.”
- To make profits, you need to make something
 - Of the 10 most profitable industries for small businesses, nine were services like dentists, tax preparers, mining support services, credit counselors, insurance brokers, and legal and health practitioners.
- If you fail, you can never try again
 - If you close a business and pay off your debts, you did not fail.
 - If you learn how to do better the next time, then you can honestly say you have paid (in dollars and hours) for a valuable piece of your education.
 - A large number of today's successful entrepreneurs have had one or more failures along the way.

Teaching Tip: Ask students to think for a few minutes of all the small businesses they know. You may want to prod them a bit by listing categories—restaurants, dry cleaners, franchises, gas stations, independent retailers, professional services such as doctors, lawyers, accountants, and so on. Then ask them how many small business closures they can recall. Remind them that business close for a number of reasons rather than failure—retirements, sell-offs, local change in traffic patterns, and so on.

- ***Students (or moms or some other group) don't have the skills to start a business***
 - Students already know what other students want/need which can lead to a retail business with a student market.
 - Students have skills that they may not have considered using—creating websites or programming.
 - Not only students but “mompreneurs” or “second career” entrepreneurs bring certain skill set to a small business.

Teaching Tip: Most students have an idea—or several ideas—that they hope to eventually use. Ask for a show of hands as to how many are service-oriented and how many are product-oriented. Note: You may wish to discuss the notion of product/service briefly here to assist students with hybrid ideas such as a restaurant; this concept is discussed further in Chapter 9 the text. Of those thinking about a product, ask if it is their product itself or how they will meet the customer’s needs thorough customer service, distribution, or other means that will set them apart from the competition.

- ***90% of all new businesses fail within 2 years***
 - This statement is wrong in two major ways.
 - 68% of businesses are still going after 2 years, 49% at 5 years, 34% at 10 years, and 25% at 15 years.
 - Closing a business is not a business failure. Only about one out of three was financially unsuccessful.

Myths like these hold back potential entrepreneurs; don’t let the doomsayers win.

- Check out the facts at reputable sites like the U.S. **Small Business Administration**.

Learn More Online

SBA’s small business FAQs: sba.gov/advocacy/frequently-asked-questions-about-small-business

SBA’s small business finance FAQs: <https://advocacy.sba.gov/2016/07/31/frequently-asked-questions-about-small-business-finance/>

Google search for reviews of free website companies: [google.com/search?q=free+websites+builder&oq=free+websites+builder](https://www.google.com/search?q=free+websites+builder&oq=free+websites+builder)

GETTING STARTED NOW: ENTRY COMPETENCIES

Learning Objective 01-04: Identify actions key to becoming a small business owner.

In order to start a business, the four elements of the BRIE model need to come together—boundary, resources, intention, and exchange. See Figure 1.4

- *Boundary*
 - Something that sets it up as a firm and separates it from the occasional buying or selling or bartering that we all do.
 - This can be a business name or government registration, a phone or email address dedicated to the business, or a specific location for the firm in a home, commercial space, or even on the internet.
 - Boundary is a place to locate and protect the resources for the business.
- *Resources*
 - The product, service, or process (e.g., app) to be offered
 - Informational resources on markets and running a business
 - Financial resources
 - Human resources—such as your own time or that of employees
- *Intention*
 - This is simply the desire to start a business
 - The most frequently occurring element of the BRIE model
- *Exchange, or entrepreneurship*
 - This is the process of moving of resources, goods, or service to others in exchange for money or other resources.
 - If the firm does not exchange with its environment, there is no “business” taking place.

The BRIE model can help you deal with one of the biggest hurdles to starting a business—inaction.

Skill Module 1-3: BRIE Self-Assessment

This self-assessment helps you recognize what important steps you have taken to start your business, and what remains to be done. The minimum is to have done at least one activity in each category; the more activities done in each category increases the chance of survival.

Note that most points are tied to a chapter in the text. Have students periodically look at this list again to see if they progress through the class.

SMALL BUSINESS AND THE ECONOMY

Learning Objective 01-05: Recognize how small businesses are important to our economy and your community.

Small business is vitally important to your community and even to our economy.

New Jobs

- From 1995 to 2020, the SBA reported that small businesses created 12.7 million net new jobs (jobs created minus jobs lost) while large businesses (with more than 500 employees) created 7.9 million net new jobs.
- They employ more than half of all Americans, about 53%.
- They are more likely to provide jobs to part-timers, those with unusual schedule needs, people with little or no experience and those with uneven job histories.

New Ideas

- Creative destruction** is the process whereby new business, products and services tend to negatively impact existing businesses, product, and services.
- Small businesses have the freedom and flexibility to pursue ideas that larger firms may reject or what they think is important.
- Small businesses generate 16 times more patents and are twice as likely to be among the top one percent of all patents cited by others, a measure of importance of the invention.
- Table 1-3 provides examples of major inventions from small businesses and student-started businesses in eight different situations—such as medicine or leisure.

Table 1-3
Major Inventions From Small Business and Student-Started Businesses

Where Innovation Is Used	From Small Businesses	From Student-Started Small Businesses
<i>Medicine</i>	Heart valves (Demetre Nicoloff)	Video laryngoscope (Aircraft Medical)
<i>Business processes</i>	Assembly lines (Olds)	JIT PC assembly (Dell)
<i>Computing hardware</i>	Supercomputers (Cray)	Home computers (Apple)
<i>Computer software</i>	Relational databases (Oracle)	Social networking (Facebook)
<i>Everyday technology</i>	Photocopiers (Chester Carlson)	Google
<i>Leisure</i>	Outboard engines (Cameron Waterman)	Snowboards (Dimitrije Milovich)
<i>Fashion</i>	GORE-TEX (W. L. Gore)	Extreme custom nail polish (Dineh Mohajer)
<i>Drinks</i>	Snapple (Arnold Greenberg)	Kombucha (GT Dave)

New Opportunities

- Owners have not only flexibility, but the chance to improve their economic well-being.
- People with unusual schedules and people with problems that might limit their ability to be hired (e.g., immigrants, busy parents, people with challenging health conditions or impairments) can achieve success by entrepreneurship.
- Small businesses offer opportunity to the community in a number of ways.
 - New products, services, and processes.
 - Provides opportunities to large or medium businesses from the products or supporting services the small business firm will need to operate.
 - Big business depends on small business as a source of key ideas for new products.
 - Provides tax dollars both from the firm's income and from that of its employees.

Small Business Insights: Success: GT Dave and Kombucha

GT Dave made his mom kombucha tea from the family's recipe when she was battling breast cancer. His mom beat the cancer and GT decided to offer the tea commercially. Using his savings and a loan from his mother, he started the business with two drink lines and got them into Whole Foods stores in California. He now has 30 types of kombucha, as well as kefirs, yogurts, and adaptogenic teas, and is the industry sales leader with more than half the market.

While this is a classic example for new opportunities, there are elements of job creation and innovation as well.

Teaching Tip: Select a number of products, services, or processes that were or are relatively new to the market and known to students. Examples might include a recently released streaming, movie, a new electronic games (e.g., PlayStation), or ride sharing through Uber and Lyft. Divide the students into groups and ask them to generate lists of product variations and/or peripheral products or services that have evolved from this invention. Have them come up with several new ideas—things that haven't been done, but could be done.

New Markets

- One type of entrepreneurial opportunity comes from pursuing opportunities in other countries.
 - Buying products or services outside of your home country and selling them at home is called **importing**.
 - Taking products and services made in your home country and selling them in other countries is called **exporting**.
- Originally, small business was a local business, rarely even a national business.
 - Today small business accounts for 31.6% of all exports and represent 97.4% of all exporting firms, most on the basis of personal or family ties.

- Most exporting entrepreneurs trade with the country of their birth, their parents' birth, or where they have prior experience.
- Another approach that has grown dramatically in the past 15 years is **e-commerce**
 - Sites like eBay and Amazon handle the global trade.
 - Formally, this is called **virtual instant global entrepreneurship (VIGE)**.
 - VIGE uses Amazon or eBay (for products) or Upwork (for services) to quickly establish a global presence.
 - Most sites offer procedures, services, and web page templates that incorporate best practices for global trading.
 - VIGE sites provide the assurance of honesty on the part of buyers and sellers, using rules, warranties, and mutual ratings.

Learn More Online

Importing and Exporting: SBA's Exporting page sba.gov/business-guide/grow-your-business/export-products

Importing and Exporting: The U.S. Government's Exporting page export.gov/welcome

Help for exporting finance from the U.S. Government's EXIM Bank: www.exim.gov/get-started

Challenge and the Entrepreneurial Way

Learning Objective 01-06: Recognize the seven key strategies of the entrepreneurial way.

Entrepreneurs' stories often reflect the following strategies.

- **If you don't succeed the first time, try, try again**
 - This is called the strategy of **perseverance**.
- **Scale back**
 - If you don't have enough resources for your big dream, find a smaller, scaled back version that will get you started.
- **Bird in the hand**
 - Start with the resources you already have (knowledge, contacts, money, etc.) and think about the best use you can make of them.
 - This is one of the strategies in **effectuation**.
- **Pivot**
 - Start anyway you can and then look for better opportunities as you go.
 - This is also known as the **corridor principle** because until you start going down the corridor (your business) you can't tell what opportunities you might find.
- **Take it on the road**
 - Your best market may be other than where you live.
 - Try another market, in person or through the internet.
- **Ask for help**
 - You can harness the wisdom of crowds with techniques like

- **crowdsourcing.**
 - Use specialized websites as funding or for finding or testing product ideas.
- **Plan to earn**
 - Figure out the best idea for you and plan to make it happen.

Learn More Online

Inspirational images for entrepreneurs: Kauffman Foundation

www.pinterest.com/kauffmanfdn/entrepreneurial-inspiration

Inspirational stories: *Entrepreneur Magazine* entrepreneur.com/topic/inspiration

Why firms fail: The GetAutopsy Website: getautopsy.com/

Key Terms

Bootstrapping: using low-cost or free techniques to minimize your cost of doing business.

Buyers: people who purchase an existing business.

Corporate entrepreneurship: the form of entrepreneurship which takes place in existing businesses around new products, services, or markets.

Corridor principle: a theory in entrepreneurial occupation theory that says as you start pursuing one line of work or opportunity (which is like going down a corridor) you will encounter other opportunities.

Creative destruction: the way that newly created goods, services, or firms can hurt existing goods, services, or firms.

Crowdfunding: funding a business online through the collective involvement of others to provide donations, loans, or investments.

Crowdsourcing: techniques often based on internet-based services to get opinions or ideas through the collective involvement of others.

CSI entrepreneurship: acronym to the three focuses of entrepreneurship—corporate, social, and independent.

Drop-shipping: a business in which you sell items in person or online but hold no inventory. You refer sales to a third-party who handles the shipping, and very often the financial transaction, in your name.

E-Commerce: the general term for business conducted on the internet.

Effectuation: an approach used to create alternatives in uncertain environments.

Efficiency-driven economy: A nation where industrialization is becoming the major force providing jobs, revenues, and taxes and where minimizing costs while maximizing productivity (i.e., efficiency) is a major goal.

Entrepreneur: a person who owns or starts an organization, such as a business.

Exporting: taking products or services made in your home country and selling them in other countries.

Factor-driven economy: nations with little manufacturing and largely farming and raw material extracting industries.

Firm: an organization that sells or trades with others.

Forms of entrepreneurship: the processes around an entrepreneurial effort or entrepreneurship takes place.

Founders: people who create or start new businesses.

Franchise: a prepackaged business bought, rented, or leased from a company called a franchisor.

Good or services: the tangible things (goods) or intangible commodities (services) created for sale.

Heir: a person who becomes an owner through inheriting or being given a stake in the family business.

High-growth venture: a firm started with the intent of eventually going public, following the pattern of growth and operations of a big business.

High-performing small business: a firm intended to provide the owner with a high income through sales or profits superior to those of the traditional small business.

Imitative: characterized by being like or copying something that already exists.

Importing: buying products or services from a place not your home country and selling them in your home country.

Independent entrepreneurship: the form of entrepreneurship in which a person or group own a for-profit business.

Independent small business: a business owned by an individual or small group.

Innovation-driven economies: a nation where the major forces for jobs, revenues, and taxes come from high value-added production based on new ideas and technologies and from professional services based on higher education.

Innovativeness: refers to how important a role new ideas products, services, processes,

or markets play in an organization.

Lifestyle or part time business: a small business primarily intended to provide partial or subsistence financial support for the existing lifestyle of the owner, most often through operations that fit the owner's schedule and way of working.

Main street businesses: a popular term for small businesses reflecting the idea that these are the kinds of firms you would expect to find on the main street of a typical American city and are the opposite of big businesses or "Wall street" businesses.

Necessity-driven entrepreneurship: creating a firm as an alternative to unemployment.

Novelty: characterized by being different or new.

Occupation: the type of activity a person does regularly for pay.

Opportunity-driven entrepreneurship: creating a firm to improve one's income or provide a product or service.

Owner-managed firms: a business run by the individual who owns it.

Overall growth strategy: one of four general ways to position a business based on the rate and level of growth entrepreneurs anticipate for their firm.

P2P lending: loans made from one or more individuals to the entrepreneur, rather than through a conventional bank. This can be as simple as a loan to a friend, or formally handled through a dedicated P2P website.

Perseverance: the behavior of continued effort to achieve a goal.

Self-efficacy: a person's belief in their ability to achieve a goal.

Self-employed: working for yourself.

Serial entrepreneur: a person who opens multiple businesses throughout their career.

Small and medium enterprise (SME): the international term for small businesses.

Small business: involves 1–50 people and has its owner managing the business on a day-to-day basis.

Social entrepreneurship: the form of entrepreneurship involving the creation of self-sustaining charitable and civic organizations, for-profit organizations that invest significant profits in charitable activities, or the creators of nonprofit charitable or service organizations.

Social ventures: businesses that are organized as for-profit entities but are also solving or supporting solutions to social problems.

Sustainable entrepreneurship: an approach to operating a firm or a line of business that identifies, creates, and exploits opportunities to make a profit in a way that can minimize the depletion of natural resources, maximize the use of a recycled material, or improve the environment.

Traditional small business: a firm intended to provide a living income to the owner, and operating in a manner and on a schedule consistent with other firms in the industry and market.

Unicorn: the most successful high growth ventures, those with a valuation of \$1 billion or more.

Virtual instant global entrepreneurship (VIGE): a process that uses the internet to quickly create businesses with a worldwide reach.

Discussion Questions

NOTE: Some questions allow for a number of different answers. Below are some suggestions

1. Describe the population of small businesses in the United States. How many firms are there and how many new firms are started each year?

Almost every year, while more than 400,000 new firms with employees are created, there can be 10–15 times that many new owner-only firms, so it is safe to say that there are 6 million new firms a years.

2. Why do you think that 56% of the 15- to 25-year olds say they would *like* to start a small business, but only about 15% who expresses an interest actually do anything

The major reasons given in the text include: There is not enough financing to start a business, you need to make something (or something high-tech) in order to make money, or any of the other myths. However, students might also give any of the following popular reasons: fear of losing everything, not sure what kind of business to start, fear there is not enough money to start or sustain a business, lack of family support, lack of time to get started, not sure they know everything they need to run the business, lack of knowledge about the product or the market, lack of locations to get started, fear of retribution if caught moonlighting, fear of giving up a consistent income to start their own business, fear of going solo, local, or federal regulations.

3. What are the differences between small businesses and high-growth ventures?

Table 1-2 in the chapter comparing small businesses and high-growth ventures gives the possible answers.

Table 1-2		
Differences Between Small Businesses & High-Growth Ventures		
	Small Businesses	High-Growth Ventures

<i>Preferred funding source</i>	Owner's own money	Other people's money
<i>When the firm's in trouble</i>	Cut costs	Sell more
<i>What's more important</i>	Sales	Marketing
<i>Personal control preference</i>	Retain autonomy	Involve key others
<i>Focus</i>	Efficiency	Effectiveness
<i>Meta-strategy</i>	Imitation	Novelty
<i>External control preference</i>	Control firm	Control market
<i>Grow</i>	When necessary	When possible
<i>Human resources</i>	Personalize	Professionalize
<i>Acceptance</i>	Personal validation	External legitimacy
<i>What limits growth</i>	Loss of control	Market response
<i>Delegation orientation</i>	Delegation is difficult	Delegation is essential

4. Describe the BRIE model and how it applies to creating a firm.

BRIE stands for Boundary/Resources/Intention/Exchange. Boundary is something that makes the business something separate from the rest of the world—it sets it off as a business. Resources can be time, money, knowledge or other assets that are committed to the business. Intention is the belief or expectation that they are going to start/own/run a business. Exchange is trading your goods or services for something of value (money, other goods, or services via barter) and reflects the business *doing* business.

BRIE describes the four elements you need to have in order to start a business. To get a business going and to keep it going, you need to have all four BRIE elements in the business.

5. Why might small businesses better at innovation than large businesses?

Small businesses have less at stake than large businesses. If a big business creates something that will cannibalize sales of existing products, it can be a bad thing overall for the organization, and might not increase the company's profits. Small businesses can go off and work in areas without approval of others, letting them get into areas that seem less promising or "too far out." Small businesses lack levels of approval, so new ideas can go into production or sales without having a variety of higher-ups approve of it. Often small businesses create ideas from former big business employees who offered it to their former employer, but were rejected (like Steve Wozniak, the personal computer, and his employer, HP). Small businesses are also more efficient in the R&D expenditures, getting more bang for the buck.

6. Why is the presence of small businesses important for large businesses?

Small businesses provide jobs to half the population, providing them money to buy things big businesses provide. Small businesses provide critical services to big business (as suppliers, subcontractors, etc.). Small businesses can outperform large businesses in some ways, and big businesses contract with small businesses

to provide these superior services. In these ways, big businesses need a large population of small businesses to support them.

7. **Take 10 businesses that operate in your community and categorize them in the appropriate type of overall growth strategy. Why do you put them there?**
Answers will vary. Instructor should find local businesses that fall into each category in case students have trouble identifying some of the more difficult sectors.
8. **A friend of yours started selling drawings they made from photos people sent into Etsy. It has been 6 months and your friend hasn't gotten a lot of business and is thinking about giving up. Which of the strategies from "Challenge and the Entrepreneurial Way" do you think could apply here?**

Varies student answers will emerge.

9. **How does the story of Jim McKelvey reflect the key ethical idea of this chapter, "Do well. Do good."**

Each of Jim's businesses was created to solve a social problem or allow others to gain empowerment. His opportunity-driven entrepreneurship is evident in Jim's problem-solving efforts in starting Square and LaunchCode. Jim says: "I have never really had a career, just a series of problems that I care about in different areas of my life."

Experiential Exercises

1. **Put this search into Google to find entrepreneurs from your school: *entrepreneur and (your school name) site: [linkedin.com](https://www.linkedin.com)*. Look at the first 100 names and see if you notice any patterns about what kinds of businesses they run. Your instructor might give you other aspects of their lives to look for.**
This exercise can be done as a class-wide activity or by breaking the students into smaller groups or even done individually. Consider asking them to look for companies started using crowdfunding like Kickstarter or P2P lending, like Upstart. You may also have them look to see if this is the first company the person has started or if they are serial entrepreneurs, starting many businesses. You can ask the students to look for elements of the BRIE model. Students may notice how many new jobs these businesses have created, or new ideas they have marketed, but you could ask them to look for possible opportunities to work with larger businesses, such as a software developer working with Microsoft. Are there new markets the business is not currently taking advantage of, and if so, why does the student think the company is not taking those advantages?
2. **Can you find examples of corporate, social, and independent entrepreneurs in your town? Are there examples of people who have done more than one type of entrepreneurship in their lives?**
Examples will vary by area of the country. Look for large businesses who host

business incubators for corporate entrepreneurs, for example.

3. **Check your state and locality's website(s) for information on programs supporting economic development through small business creation and job creation. You can get a start at USA.gov's State Resources page: www.sba.gov/local-assistance . Put in your zip code, and make a list of programs that might be worth looking into as you develop your business idea.**

Among organizations worth noting are the local (or closest) branches of the Small Business Development Center, the SBA office, the closest SCORE chapter, the secretary of state's office (and their local branch or satellite), the state department of economic development (and their closest office). If you are in a rural area, the USDA Extension Service or the state extension office might offer some of the same support services as the SDBC's in more urbanized areas. If the school or campus offers help, make sure the students are aware of it. If you have students interested in exporting, check out the Commerce Department's export.gov site. As students begin to veer away from government sites, it probably is a good idea to make sure they know how to evaluate websites as to the quality of their material. In small business, there are a lot of websites that say they offer expertise, but the quality can vary dramatically. Your school's librarian probably has a handout you can use, or you can use this Google search to find some good resources: "evaluating websites" site:.edu

4. **Look at the local newspaper's website, or the bizjournals website bizjournals.com/ for the paper in your region. Use the terms *entrepreneur* and *small business owner* to find articles talking about local entrepreneurs. From this, compile a list of prospective local small business heroes and heroines to serve as role models and prospectors for local sources of help.**
Done electronically, this can be a fast and easy effort. To narrow it down, you can also specify industries (e.g., restaurant and automotive) or terms like "founder," "owner," "started." Some papers and organizations (like chambers of commerce) have their own lists of major local business people, and can be a source if the online searches are not possible.

Without using the online services, it is possible to build a list from any class, asking the students for their nominees for best known local business owners or entrepreneurs. They can also think about local people who went elsewhere and made fortunes. Another approach is to have students review the local newspaper (or some other source) for a week and list all the entrepreneurs they find.

The point of this exercise is to get students used to the idea that entrepreneurs (and in particular, successful entrepreneurs) are all around them, a major part of any community. Famous ones are fine to know about, and their stories may be especially inspiring, but just knowing the 25 entrepreneurs closest to the classroom can be an eye-opening exercise.

5. **For students in your class thinking about (or in the process of) starting their own business, find out which of the BRIE items they have completed. Ask**

them which items they expect they will complete of get help on by taking this class.

Answers will vary.

CRITICAL THINKING EXERCISES

Learning Objective 1: Understand the scope of small business in the United States.

1. *Andy and Brian were talking over coffee one morning. "Brian," Andy said, "you know I've been repairing clocks as a hobby for some time. Since the nearest clock shop is in Smithton and that's about 60 miles away, I've begun doing it for friends and neighbors. I'm thinking of quitting this job and opening a clock repair shop here."*

"Oh, Andy," Brian replied, "Are you really sure you want to do that? Hardly anybody starts a business these days—no one even much thinks about doing that anymore. The day of somebody just deciding to open a business and doing it is long gone.

"Even restaurants are no longer small businesses; you gotta buy a franchise from some big corporation these days. Besides, you gotta do something different than anybody else does; you've got to come up with an idea no one else has thought of before.

Be a better friend to Andy than Brian was. Correct the errors Brian made and offer Andy some advice that will be beneficial.

Answer

First of all, small businesses aren't a thing of the past. There are 16.2 million full-time entrepreneurs in the United States in 2020, and the 2-year survival rate is 68%. Additionally, buying a franchise IS one way to become a small business owner, along with starting from scratch or buying an existing business.

While there are number of pieces of helpful advice, an important piece is to believe that you can do this, or self-efficacy. Brian is not helping Andy's belief in himself by being a doomsayer. If Andy focuses on planning and taking action on those plans, he can succeed. In addition, the text points out that businesses who get help—taking classes, attending small business seminars, and so on—greatly increase their survival odds. Finally, Brian should encourage Andy to start this business; it can only benefit the local community. Plus, Andy may need a clock repaired in the near future.

Learning Objective 2: Differentiate between small businesses and high-growth ventures.

2. *Small Business or High-Growth Venture? Read the brief descriptions below and decide from which of the two types of start-up businesses these quotes are likely to come.*

- a. *"Well, once I saved \$20,000, I figured I had enough to get started."*
- b. *"To get this product out the door, we need to let people know how much they need it. We need to place ads in magazines and maybe offer some special discounts or free offers to get the word out."*

- c. *"We saw an opportunity to do the same thing in Idaho and jumped right on it!"*
- d. *"I had a good idea, but didn't know much about selling it, so I hired Fred. Then I needed a really sharp financial person and Carolyn came on board. Soon Sandy in human resources and Ken in manufacturing joined us, and, wow, did they have some good ideas."*
- e. *"I knew this was a good idea, so I tried it and it worked. There's nothing like knowing that you were right all along."*
- f. *"There'd been pizza restaurants for years, but I figured if I started a pizza restaurant that delivered by the slice—you know, so Mom could have mushrooms and the kids pepperoni and Dad could get the works—then I could be successful."*
- g. *"We were beginning to have trouble making payroll, so I called in my salespeople and had them double the calls they were making."*
- h. *"I figure it's my business, it's my livelihood that's at stake, so I call the shots."*
- i. *"I knew we made it when we won the "Entrepreneur of the Year" award."*

Answer

Using Table 1.2 from your text, the following are the most likely choices with the probable category in parentheses.

- a. Small Business (preferred funding source)
- b. High-Growth Venture (what's most important)
- c. High-Growth Venture (grow)
- d. High-Growth Venture (personal control or delegation)
- e. Small Business (acceptance)
- f. Small Business (metastrategy)
- g. High-Growth Venture (when the firm's in trouble)
- h. Small Business (delegation or personal control)
- i. High-Growth Venture (acceptance)

3. Complete the following table:

	Growth Rates	Sales	% of Small Businesses
High-growth ventures			
High-performing small businesses			
Traditional small businesses			
Lifestyle/part-time businesses			

Answer

	Growth Rates	Sales	% of Small Businesses
High-growth ventures	25% + per year	\$1,000,000 +	5%
High-performing small businesses	5–15% per year	\$100,000–1,000,000	20%
Traditional small businesses	No growth after sales meet owner's need	\$25,000–100,000	22%
Lifestyle/part-time businesses	No growth after a low level	<\$25,000	53%

Learning Objective 3: Dispel key myths about small businesses.

4. *Brian continued, “Where the heck do you think you are going to get the money? It’ll cost a bundle and there’s just no money out there to borrow for anything that risky. And besides, you aren’t really doing anything. I mean you aren’t making anything to sell or anything. You tried that pizza business a few years ago and really blew it; what makes you think that you could try again? Gosh, the economy is really rotten, too. Are you nuts?”*

Brian touched on four of the most common myths about new businesses. Give Andy the information he needs to rebut these.

Answer

The SBA reported that almost 40% of business owners started their businesses with less than \$5000. Andy may have personal savings; he may be able to convince some of his friends (but probably not Brian) or family to loan him some money. Andy could try a P2P lending site like Upstart for funding. There are venture capitalist, “angels,” and bank loans and crowdfunding available. A good Kickstarter campaign could secure all the funding he needs. Andy could also think of bootstrapping, such as downsizing his house or car, taking a second mortgage on his home or using personal credit cards to help finance his venture as well.

As for Brian’s contention that Andy has to make a product in order to make money, that is nonsense. Services are the single largest business sector in the United States and 9 out of 10 of the most profitable start-ups are services. If Andy closed his pizza business and is debt-free, he did not fail. In fact, Andy is now primed to make his next business a success by applying all the lessons he learned in the first business.

Learning Objective 4: Identify actions key to becoming a small business owner.

5. *Brian decided that he was fighting a losing battle. “So tell me what you’ve done so far.”*

Andy responded, “I’ve got a pretty good set of supplies and tools already as the wife and kids give me them for Christmas and birthdays. I’ve recently purchased

a cabinet with all sorts of drawers and dividers to organize myself and a workbench and work stool that ought to help my posture while working. There's an empty store front on Main that has pretty reasonable rent.

"I also signed up for a small business class at the local university. We haven't covered much yet, but I'm already thinking about business plans and marketing plans and such. This course will help me do this and there's a local SCORE chapter with all these retired business people who will help me if I run into problems."

Use the BRIE Model to critique what Andy has done so far and make suggestions for what he should do.

Answer

Andy's strong point is *resources* where he has done, or is in the process of doing probably everything he needs to do in this area. In *intentions*, he has pretty much completed a couple (thinking about the business, developing his product/service) and is in the beginning stages of most of the rest.

On the other hand, the only thing he's done in the *boundary* category is identifying a place for his business. He will need to establish other boundaries, such as securing the location, getting a phone for the business and developing a website. There are free website platforms online Andy could use for a quick and free web presence. If he has done anything in the *exchange* category, he hasn't mentioned it to Brian. Depending on how you consider it, he may have made a little progress in this category. He may have earned some money while this was a hobby and the credit established with his small "hobby" purchases might be usable for larger future purchases. Or, he may have already considered a pricing plan in the process of creating his business plan.

Learning Objective 5: Recognize how small businesses are important to our economy and your community.

6. *Select two or three small businesses in your area and make a list of probable benefits they bring to your community.*

Answer

New Jobs: unless this is a one-man operation, jobs have been provided even if only for family members. Jobs also mean income taxes (in most states), possibly reduction in the number of people drawing welfare, and flexible work for those otherwise unemployable and possibly other benefits

New Ideas: while it may be imitative rather than novel, most small businesses provide SOMETHING that wasn't there before. For example, a restaurant could offer unique cuisine, a unique dining experience, certain services that weren't previously available (carry out or home delivery), a cheaper (or more expensive) alternative, or simply be closer and more convenient than those already there.

New Opportunities: other than the new opportunity for its customers, business offers opportunities for other businesses—whether it's another new business or an existing business. The restaurant example given above requires sources

for all its food products, its dishes, its appliances, its uniforms, its menus, and so on. In addition, it may use laundry services for the uniforms and tablecloths, pesticide service in order to keep its rating, insurance, security, and a number of other services. Someone will likely help them design their advertising and they will need a place to display these ads whether it is television, a newspaper or a billboard, and so on. The building may need remodeling before opening and is likely to have the occasional backed up drain or other maintenance and upkeep requirements. (This is by far not an exhaustive list.)

New Markets: Maybe the ingredients in special dishes offered by the restaurant are imported from another country. Or maybe a local product is being exported all around the world. The use of VIGE allows even small entrepreneurs to have a global presence.

Learning Objective 6: Recognize the seven key strategies of the entrepreneurial way.

7. *Eavesdropping at Ray's Coffee Shop on the conversations:*

"After I got my degree and got a little experience," Collin (Rob's accountant) started, "I decided to start out on my own. My aunt gave each of her nephews \$5000, and I had some second hand office furniture, so it was easy to get going. I was living in the largest city in the state and figured there would be lots of customers. Maybe, but there was also a lot of competition, too! Moving to this smaller town was great. My clients are like family to me here."

Rob, of Rob's Auto Shop added, "My dream was to own a full service gas station like my Dad, but by the time I was old enough self-serve was becoming more and more popular. Now they carry groceries and have restaurants. What do I know about those things? For a while I thought I'd have to look at something totally different. Then I thought about what I really liked and that was working on cars—not pumping gas or selling tacos. So I put together a plan and bought a closed gas station. Then I gradually added bays. Now I have three locations."

Banker Sean joined in, "I wanted to start an investment firm right from the beginning, but it's hard to do, especially at the time I wanted with a bad economy and all. My dad wanted to work less at our family bank, so it made sense for me to help him out so he could go part time. I opened an investment department at the bank—just a small piece of our business. There will be a formal announcement in a few weeks. My brother loves the banking part so he'll do that. We're splitting off the investment part into a new firm and I'll finally get to do this full time."

"You'd think with a husband in business I'd get a lot more help with my start-up," laughed Jennifer, Rob's wife "but Rob was so busy, I had to put together a network of advisors to help me making my start-up plans. Of course, with Rob's lack of fashion sense, that was probably a good idea!"

As Ray refilled their coffee cups, he commented, "I couldn't help hearing your

stories and it got me reflecting on mine. I started a taco restaurant years ago, but when they changed the highway, my business died. Then I tried a steak house downtown. It was successful for a while, but when the economy isn't so good people don't want to spend so much. After that closed, I decided what this town needed was good food at reasonable prices and the coffee shop was born."

Can you tell the entrepreneurial ways these entrepreneurs used?

Answer

Rob –Pivot and plan to earn

Collin –Take it on the road and bird in hand

Sean – Scale back (and probably pivot, and maybe perseverance).

Jennifer – Ask for help

Raymond – Perseverance (and maybe pivot)

Mini-Case: CSI Entrepreneur-To-Be Jolene Adams

Jolene Adams was a student with an interest in helping fight “food insecurity” in St. Louis. The initial question for Jolene was what the best way was to approach the business—as a corporate, social, or independent business.

Answers

1. What do you think are the advantages and disadvantages of the corporate, social, and independent entrepreneurial approaches outlined in the case?

The advantages of working as a corporate entrepreneur and working for the already established St. Louis Metro Market would be less cost in both time and money, and the fact that Jolene would still be meeting her goal of fending off food insecurity. The disadvantage would be that she would be following another’s goal and restricted if she decides to follow a different route. A social venture could either be financially self-sufficient or for-profit but either way, the focus will still be on feeding people. Advantages may be tax breaks from the government and charitable funding from local or national organizations. Disadvantage could include restrictions on the use of funding obtained by others. An independent entrepreneur has the most flexibility and the advantage of having sole control over the decisions of the business. Disadvantages could be funding or even lack of business knowledge to keep the business profitable while still keeping prices as low as possible.

2. How would you feel about being a corporate entrepreneur who is part of an existing organization? How about as an independent or social entrepreneur starting your own organization from scratch?

Student opinion of working as a corporate entrepreneur will vary. The same is true of opinions about independent or social entrepreneurs.

3. All businesses need to break even financially to be seen as workable. For-

profit businesses also typically measure how much profit they make as one metric of their success. But businesses can also measure the impact they have on their communities, customers, economies, and environment. What kind of impact measure might it make sense to consider for the proposed market? Does it change depending on the kind of CSI entrepreneurship approach you choose?

One impact measure that could be used is the number of people who live in a food desert who has a lessened burden due to availability of the food service. Another measure could be the total amount of food distributed per week or month. If the approach is a for-profit organization, profits will be a more important measure than if a social organization.