

SMALL BUSINESS MANAGEMENT AND ENTREPRENEURSHIP

After studying this chapter, you should be able to:

- A Understand the contribution that small business makes to the national economy.
- A Discuss the unique place that entrepreneurship holds in terms of adding value to society.
- A Describe the small business environment.
- A Discuss how the functional areas of planning, organizing and staffing, directing, and controlling contribute to managing in the small business.
- A Summarize the factors which make the small business effective.
- A Identify the basics of starting a business.

Stephen Jobs, Ray Kroc, and Mary Kay Ash are people who have successfully started their own businesses—entrepreneurs who have added value to society. Jobs is credited with starting the personal computer revolution; Kroc, at the age of 52, founded the hamburger chain, McDonald's; and Ash has influenced the lives of millions through her cosmetics and personal care products.

Many college students wonder what it would be like to start their own business. Even more think about being their own boss. Others are faced with decisions about working in the family business. Some of these enterprises do well, while others fail within the first few years. New businesses and small businesses typically face serious management challenges.

The purpose of this chapter is to present some of the distinctive issues that one might face while managing in a small business. It will also discuss some of the managerial implications related to starting a business. The probability is high that many college graduates will work in small businesses at some time during their working careers, because small businesses are common in the United States. They account for 14 percent of the gross national product, 44 percent of the gross business¹ product, and 47 percent of total U.S. business employment. These small businesses are treated as the subject of a separate chapter because they face certain common management limitations due to extremely limited

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resources as compared to the "deep pockets" of larger organizations, Entrepreneurship is often equated with small business ownership and management due to the general perceptions that most of the innovation and growth come from this sector. This chapter explores both small business and entrepreneurship and explains that the functions of planning, organizing and staffing, directing, and controlling presented in previous chapters can be used to increase the chances of success for a small business.

DEFINING A SMALL BUSINESS

Small business defies easy definition. Typically, the term *small business* is used to describe the so-called "Mom and Pop" stores such as the neighborhood grocery. The term *big business* is commonly applied to the "giant" corporations such as IBM and General Motors.

As Figure 22-1 suggests, the United States Small Business Administration has a very detailed set of criteria that can be used to define exactly what a small business is. The government's intent is to require that the business be independent and not dominant in its field in order to be considered a small business. The government also recognizes that different sectors of the economy are characterized by different levels of employment and sales revenues.

Figure 22.1 DEFINING A SMALL BUSINESS

The U.S. government's Small Business Administration (SBA) uses these standards in defining a small business for the purpose of qualifying for loans:

1. Is *independently* owned and operated.
2. Is not *dominant* in its field.
3. If *manufacturing*, it has an average employment of no more than 250 employees or a relatively small size within the specific industry (up to 1,500 employees under some circumstances).
4. If *wholesaling*, its annual sales are no more than \$5 million, depending on the industry.
5. If *retailing or service*, its annual receipts are no more than \$2-\$8 million, depending on the industry.
6. If *construction*, its average annual receipts cannot exceed \$9.5 million for the three most recently completed fiscal years for general construction. For special trade construction, the average annual receipts cannot exceed \$1 or \$2 million for the three most recently completed fiscal years, depending on the industry.
7. If *any other business*, its annual receipts are no more than \$1 million.

Source: U.S. Government Printing Office, *The State of Small Business: A Report to the President* (Washington, DC: 1985]

A more general definition of **small business** suggests that those businesses that are financed by the owners and their personal funding resources should be considered small. Furthermore, the same person or small group owns and manages the business; resources are secured locally; and sales are distributed locally. Also, most businesses are considered small if they are small relative to others in the same industry. Additionally, the U.S. Chamber of Commerce recommends that a business that employs fewer than 500 individuals be considered small. The preceding criteria seem to represent what most people think of when they refer to small business. The criteria are also very broad and allow many businesses to fit their definition of small.

Whatever the definition, figures indicate that in terms of sheer numbers, small businesses far exceed big businesses. As shown in Table 22-1, more than 99 percent of the nation's 14 million businesses are small—even if the definition is restricted to businesses that employ fewer than 100 rather than 500 people. The total of 14 million businesses includes farms, franchises, and professional firms.

Table 22-1 **CLASSIFICATION OF BUSINESSES BY SIZE**

Percentage of Business	Number of Employees
88.9%	Fewer than 10 persons
94.7%	Fewer than 20 persons
99.2%	Fewer than 100 persons
99.9%	Fewer than 500 persons

Source: U.S. Government Printing Office, *The State of Small Business: A to the President* (Washington, DC: 1985]

Not only are there substantially more small businesses than big businesses, but the numbers of new jobs created by small businesses are much greater than those created by big businesses. During the past ten years, a total of 20 million new jobs have been created in small businesses, compared to a net loss in jobs in the *Fortune 500* companies. Additionally, small businesses outperform big businesses in critical areas, such as profit. Small businesses earn a higher return on owners' equity than do big businesses.¹

Two major reasons why small businesses outperform big businesses are as follows:

1985] 1. T. Peters and N. Austin, *A Passion for Excellence* (New York: Random

A Small business responds more quickly and at less cost than big business to the fast pace of change in products, services, processes, and markets.

A Small business has become more attractive to talented, individualistic men and women.

Business majors graduating from college are going to work in small businesses at an increasing rate. It is not unreasonable to expect that many of you will have some experience with small business management during your careers.

ENTREPRENEURSHIP

Entrepreneurship means nothing less than the creation of wealth—adding value. This wealth is created by individuals who assume the major risks in terms of equity, time, and/or career commitment of providing value for some product or service. The product or service may or may not be new or unique, but value must somehow be infused by the entrepreneur.² When this activity is done within the confines of a large organization, it is often referred to as intrapreneurship. Many small businesses are entrepreneurial. It is important to understand exactly what this means, because these businesses often call for "entrepreneurial" management.

Peter Drucker suggests that much of the conventional wisdom about entrepreneurial management is dead wrong. To Drucker, entrepreneurship is nothing more than a discipline, and, like every other discipline, it can be learned. Entrepreneurship is not a romantic subject—it is hard work.³ Others, especially the entrepreneurs themselves, describe their activities in lighter terms. As one entrepreneur wrote: "Entrepreneurship is a little like coming to a traffic light which is red and not necessarily stopping."⁴

Entrepreneurs and Small Businesses

From the preceding discussion, it can be seen that there can be a considerable overlap between small business and entrepreneurship, nevertheless, the concepts are not the same. Small businesses are not all entrepreneurial in nature. Entrepreneurial firms are not all small—they may begin at any size level, but key in on growth over time. Some new small firms may grow, but many will remain small businesses.

2. R. Ronstadt, *Entrepreneurship* (Dover, MA: Lord Publishing, 1984), 3.

3. P. Drucker, "The Entrepreneurial Mystique," *INC.* (October 1985), 34-44.

4. Ronstadt, *Entrepreneurship*, 27-28.

A critical factor that distinguishes entrepreneurs from nonentrepreneurial managers and small business owners is innovation. The entrepreneur is characterized by a preference for creating activity, manifested by some innovative combination of resources for profit. The following definitions will be used in the remainder of this chapter:

- ▲ A small business venture is any business that is independently owned and operated, is not dominant in its field, and does not engage in any new marketing or innovative practices.
- ▲ An entrepreneurial venture is one where the principal goals are profitability and growth, and the business is characterized by innovative strategic practices.
- A A small business owner is an individual who establishes and manages a business for the principal purpose of furthering personal goals. The business must be the primary source of income and will consume the majority of one's time and resources. The owner perceives the business as an extension of his or her personality, intricately bound with family needs and desires.
- A The entrepreneur is an individual who establishes and manages a business for the principal purposes of profit and growth. The entrepreneur is characterized by innovative behavior and will employ strategic management practices in the business.⁵

Entrepreneurial Myths and Fallacies

Several myths and fallacies about entrepreneurs have developed over the years. Let's look at a few of them and dispel any wrong thinking about them.

- ▲ *Entrepreneurs are doers, not thinkers.* This is only partially true. Certainly, some entrepreneurs have experienced a great amount of success following this adage—but many have failed from a lack of planning. The former are very vocal, the latter are not vocal. It is clear from research that most entrepreneurs who have been effective over long time periods are not mindless doers, nor are they gamblers willing to risk all on a hunch. Frequently, they are very good, thorough thinkers. After all is said and done, they do act, but generally, only after they have lowered the odds of failure by thinking out their actions in some detail.
- A *Entrepreneurs are born—not made.* A substantial amount of evidence indicates that entrepreneurial traits and tendencies m\

5. For a comprehensive discussion of the research and conceptual basis for a distinction, see J. W. Garland et al., "Differentiating Entrepreneurs from Small Business Owners: A Conceptualization," *Academy of Management Review* vol. 9, no. 2[1984]:159:

acquired characteristics or learned behavior/¹ This supports the notion that entrepreneurship can be taught and learned. In other words, if you are interested in becoming more entrepreneurial in your behavior, you can learn how. All of the evidence suggests that the entrepreneurial parent or family situation serves more as a role model than as a determinant of potential.

- ▲ *All you need is money.* The lack of money is often a symptom of other fundamental problems or oversights, rather than the cause of them. Deep pockets (or overcapitalization) often cause as many problems for the typical small business person as do shallow pockets. Additionally, having a viable idea and the willingness to contribute "sweat equity" often compensate for a lack of hard money.
- A *All you need is luck.* This belief sees entrepreneurial and managerial skill and knowledge as irrelevant or not important. Being in the right place at the right time is most important, according to this perspective. Research on successful entrepreneurs indicates that even if luck does play a part in their success, they will typically deny that it really did. Entrepreneurs are characterized by an internal locus of control. This means that they are willing to assume responsibility for their successes and failures, and they do not have the psychological need to place either credit or blame on outside events which are beyond their control. Entrepreneurs consistently downplay the importance of luck.
- ▲ *The myth of the entrepreneurial profile.* Many books do their readers a disservice. When they introduce the concept of entrepreneurship, they often contain some checklist or simple test which claims to tell the reader that one possesses or lacks the characteristics of an entrepreneur. Such a checklist is a gross oversimplification of a very complex phenomenon. There are a great many profiles because there are a great many different kinds of entrepreneurs. A simple test offers a deceptive average. Additionally, it takes the concept of entrepreneurship out of the context of the situation within which it must take place. Entrepreneurship is very much a situational issue.

Entrepreneurial Characteristics

With the preceding warning in mind, it is still useful to present a set of characteristics which appear to be statistically associated with entrepreneurial success. These characteristics have been developed by psychologists, venture capitalists, and practitioners and are generally

6. D. C. McClelland, *The Achieving Society* (New York: Trvington Publishers, 1976)

Esprit De Corp.
entrepreneurs
Doug and Susie
Tompkins
challenged the
market with
innovative and
moderately
priced clothes.



believed to be related to entrepreneurial success. The reader is cautioned against using these characteristics as a definitive profile of his or her chances of succeeding as an entrepreneur.⁷

- ▲ *Commitment, determination, and perseverance.* Entrepreneurs almost always give their all in order to succeed. Case studies of successful entrepreneurs indicate that they make many sacrifices in family life, standards of living, and often their health.,
- ▲ *Strong achievement motivation.* The entrepreneurs are self-starters who are driven by a need to succeed and to accomplish something. They are constantly keeping score.
- A *Goal directed.* They are also goal-oriented individuals who typically challenge themselves by setting difficult, yet obtainable objectives. Both goal-directed behavior and achievement motivation were discussed in detail in Chapter 12.
- A *Assume personal responsibility.* Entrepreneurs do not avoid situations where they are personally responsible for the success,!

7. For additional information on the subject of entrepreneurial characteristics, J. A. Timmons, *New Venture Creation* (Homewood, IL: Richard D. Irvin, 1985), 31K

failure of any given activity or event. They have a strong inclination toward doing and are self-reliant individuals.

- A *Problem solvers*. They worry a problem until they can come up with a solution. Such individuals have a strong determination to get the job done.
- ▲ *Peripheral awareness*. This indicates that successful entrepreneurs are characterized by an extremely sharp peripheral vision. In other words, they look at things differently than most people, and in doing so, often see things that most people miss seeing.
- A *Internal locus of control*. They generally hold the belief that one's accomplishments and failures lie within one's personal control and influence. They downplay the importance of luck.
- A *Tolerance for ambiguity*. The successful entrepreneur is able to live with a substantial amount of uncertainty in his or her life. This uncertainty involves job and career security, work-related events, and other aspects of independence. Self-confidence is related to this perspective.
- A *Calculated risk taking*. The entrepreneur is not risk averse; in other words, he or she will take risks. In a calculated risk, the chances of winning are neither so small as to be a gamble nor so large as to be a sure thing. Much of the entrepreneur's managerial efforts are directed toward reducing the level of risk by lowering the odds against his or her enterprise.
- A *Low needs for status and power*. Achievement—not power—is the driving force in the lives of entrepreneurs.
- A *Ability to deal with failure*. Entrepreneurs often fail, only to recover and keep on going. Failures are seen as temporary setbacks and are valued as learning experiences.

THE SMALL BUSINESS ENVIRONMENT

Small businesses are subject to the same environmental domains and dimensions as those affecting larger businesses. However, because they have fewer means of buffering themselves from the environment and responding to changes, small businesses are especially susceptible to environmental forces.

Economic Domain

Small businesses are particularly vulnerable to downturns in the business cycle, because they have fewer resources to fall back on during

lean times. Borrowing is likely to be more expensive for small businesses since they lack the economic power to qualify for the prime rate from lenders. The small business frequently lacks surplus resources in the forms of inventories of raw materials and finished goods as well as operating capital; thus, the business may be unable to survive the difficult economic times that a larger firm can weather by living off the surpluses built up during more prosperous times.

The economic affluence of the small businesses customers obviously affects their demand for the products and services offered. Factors in the general economic environment that impact on small business customers include such things as the general availability of credit, amount of disposable income, interest rates, rate of inflation, and growth trends in the overall economy and in sectors targeted by the business. Slower growth in the GNP means that any growth for one business must come at the expense of another company's market share rather than from the expansion of the total market. One implication of this is that marketing practices must be adjusted for no-growth segments.

Political Domain

The political environment defines the legal aspects of engaging in business. It produces both opportunities and restrictions. Some government regulations protect small businesses: antitrust laws, patent protection, fair-trade decisions, subsidies, product research grants, and import restrictions may all aid small businesses.

Government support for particular businesses spawns development, as in the space program under Kennedy and synthetic fuels (less successfully) under Carter. Government social policies affect hiring, safety, and environmental policies of all businesses; however, the effect may be particularly strong on small businesses that are overwhelmed by the red tape and paperwork required to document compliance and the expense of safety and environmental protection features that may require large-scale production to be economically feasible. The expenditures required to meet environmental and other standards and to comply with paperwork to document compliance impact more on small businesses than on large ones. There is simply less output so that the cost of compliance per unit is greater for the small firm. Small firms also typically do not have access to long-term debt available to larger firms to finance regulatory compliance. Because small businesses usually find themselves in such competitive environments, they are less able to recoup the costs by raising their prices. In the late 1960s and early 1970s, many small foundries in the United States failed at least in part because they could not meet new Environmental Protection Agency requirements. Small companies that do manage to survive are still at a disadvantage in dealing with the proportionately larger share of regulatory costs. One small trucking company's president figured that his truck drivers had to mam-

tain about 60 different forms to comply with various regulations. And small companies cannot hire additional staff to handle the accompanying paperwork.⁸

In 1980, almost \$13 billion was spent by small businesses in filling out nearly 850 million pages of government reports. The owner of a small seed and grain business claimed such government reports increased clerical costs by 42 percent. Another small business owner estimated IRS regulations on biweekly payrolls increased monthly record keeping requirements by \$200.⁹

Complaints about the regulatory load on small businesses have led to some recent relief. Firms employing fewer than 250 workers are no longer required to file EEOC written affirmative action plans for hiring and promoting minorities; OSHA has dropped regular inspections on all except high-hazard manufacturing operations, and reporting requirements have been relaxed for small carriers. In addition, about 10 percent of small businesses making stock offerings have been exempted from SEC disclosure requirements.

Small businesses have also been given help in meeting the legal costs of protesting regulatory loads. The Equal Access to Justice Act enables businesses to recover costs of litigation from the government when they challenge what they believe to be unreasonable government regulation—provided they win. No compensation is available, however, if the small business is not successful in its challenge, and the law does not cover disputed IRS tax rulings.

Another attempt to offer some protection to small businesses is the Regulatory Flexibility Act which requires the government to take into account the size of the business and its ability to comply with regulations. Public notice must be given of proposed rules which can be expected to have large economic impact on small businesses, and record-keeping requirements must be estimated. According to a government official, the Regulatory Flexibility Act "goes after crazy regulations and Equal Access aims at crazy enforcement."¹⁰ On the other hand, small businesses may benefit from government requirements dictating that a certain percentage of contracts be set aside for minority contractors.

The most overt political help for small businesses comes through the Small Business Administration (SBA) which was formed in 1953 to promote free competitive enterprise by making credit, contracts, and management advice available to small businesses.

The role of the federal government in determining the political environment of business has at times overshadowed that of state and local governments. Nevertheless, it is necessary for all businesses to com-

8. N. M. Scarborough and T. W. Zinnmerer, *Effective Small Business Management* [Columbus, OH: Merrill, 1984]

9. "End a Federal Rule and a New One Replaces It," *U.S. News and World Report* vol. 88, no. 5 [March 3, 1980]: 61-62.

10. M. Thoren, "A Fairer Shake for Small Business," *Nation's Business* vol. 70; no. 2 [February 1982], 39-40.

ply with state and local ordinances. States, for example, set requirements for worker's compensation coverage and have varying other insurance requirements. The effect of local political factors is felt in the zoning ordinances that limit location decisions for businesses.

Social Domain

The importance and pervasiveness of economic, political, and technological forces is undeniable, but social forces are also necessary considerations for small businesses. People—who they are, where they are, and what they think—must be assessed and considered in managing the small business. All businesses have to be concerned with changes in society as a whole. Day-care centers, many of which are small businesses, are one example of opportunities for businesses that result from changes in society.

Values and cultural patterns in society at large affect businesses, as discussed in Chapter 4. Public concern with environmental issues, the safety of nuclear power plants, and demands for more fuel-efficient cars have all affected what is produced and how it is produced in the American economy.

Technological Domain

A major technological change can revolutionize an industry. Less major changes can lead to product improvement, changes in production techniques, need for different marketing approaches, or new product development. Businesses are increasingly affected by technological changes in other industries that can create new and unexpected competitors. Small businesses may be particularly vulnerable to changes in technology that can create substitutes for their products from unexpected sources.

However, small businesses may actually enjoy an advantage where technological innovation is concerned. Because they are less constrained by large investments in plants and equipment for producing large amounts of current products using existing technologies, small businesses lead the way in innovations. Small businesses produce two and one-half times as many innovations as large firms relative to the number of employees.¹¹ Small businesses have brought the world instant cameras, heart pacemakers, the vacuum tube, and the zipper. IBM may be the giant in the computer industry, but it is not known for technological innovation. It was another company (Univac) that produced the first full-scale commercial electronic computer; and Apple Computer, starting out as a small business in the owner's garage, developed the concept, product and market for the personal computer.

11. U.S. Government Printing Office, *The State of Small Business: A Report to the President* (Washington, DC: 1983), 122.

Competitive Domain

Small businesses usually operate in oligopolistic and monopolistic competition markets. The degree of competition in these markets is influenced by at least five factors: rivalry among competitors, potential entrants, substitute products or services, the bargaining power of customers, and the bargaining power of suppliers.¹²

Rivalry among competitors is likely to be the most important environmental force faced by the small business in day-to-day operations. Awareness of what competitors are doing, anticipating what they are likely to do, and planning responses to their changes in tactics and strategies are key activities in managing the small business. In addition, any contemplated change in the operation of the business must be assessed in light of the probable response of competitors. Price cuts by one firm are likely to produce price cuts by competitors, for example. Such price competition may leave all firms in the industry with lower profits or even losses, but the firm that fails to meet its competitor's prices in a highly competitive market will suffer most.

Small businesses usually operate in markets with relatively low barriers to entry. Hence, the threat of new entrants is a constant concern. Barriers to entry, such as economies of scale and high capital requirements, are usually prohibitive to small business, of course. But product differentiation, in which a small business achieves a unique niche in terms of quality, design, customer service, or brand image, may be achieved by a small business and act as a barrier to entry into its market segment. However, because of resource limitations, most small businesses enter markets with low entry barriers, and once established, must constantly be concerned with the threat of new competitors.

There is also the threat that competitors will produce substitute products or services that will give customers new ways to meet the needs that are currently being met by the small business. The specter of new substitutes for existing products is increased by the accelerating rate of change in technology.

The bargaining power of customers and suppliers also affects the competitive domain of the firm. Small businesses that sell most of their output to one or a few customers are put in a dependency position in relation to the customer. Likewise, if the small business is one of many customers of its key suppliers, it will have little power in relation to those suppliers. Small businesses rarely have great amounts of bargaining power in dealing with their customers or suppliers. Their larger competitors may be able to negotiate more favorable terms with suppliers because their larger purchases give them more clout in the bargaining process.

12. M. E. Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors* [New York: Free Press, 1980]

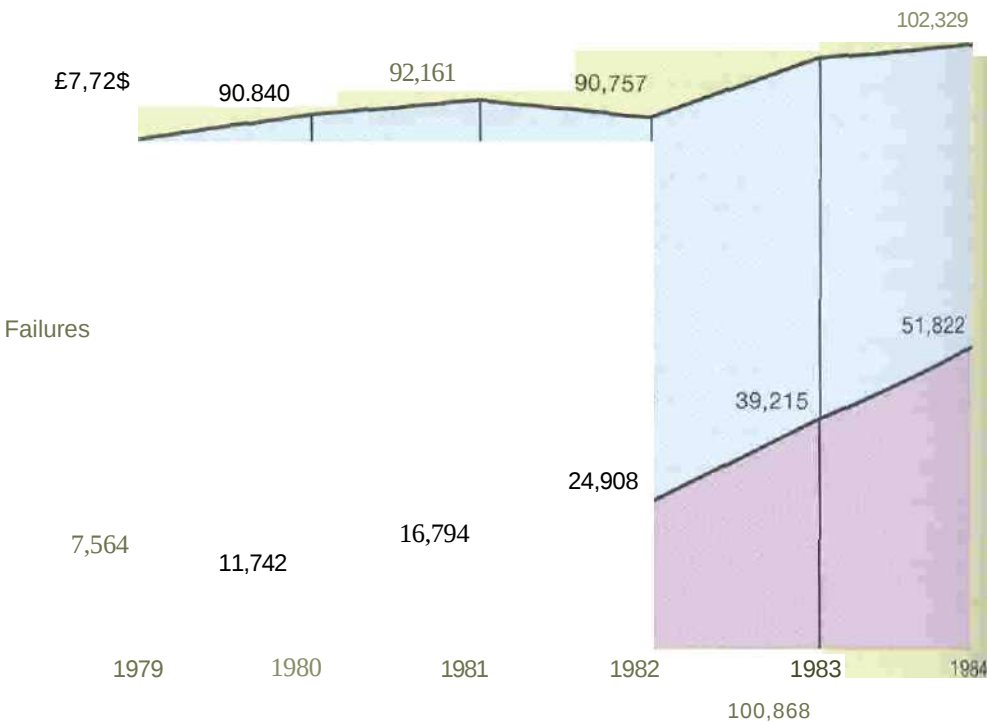
Physical Domain

Small businesses must attempt to protect themselves from elements in their physical environment such as damaging weather conditions. The 1980s crisis in the insurance industry has hit small businesses especially hard and made the physical domain more threatening to floundering business than in times when insurance was cheaper and easier to obtain. Increasing expenses in this area may affect a company's pricing policies and hence its ability to compete against larger companies that can spread the expense across a larger number of products or incidents of service provision.

Failures in Small Businesses

During the 1960s and 1970s, Dun & Bradstreet reported a rate of about 10,000 business failures per year. This rate has increased during the 1980s as shown in Figure 22-2. The businesses that fail include 50 percent

Figure 22-2 U.S. BUSINESS STARTS AND FAILURES



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of those in their first five years of existence. One reason why so many firms fail is that it is so easy to start one. There are no standardized methods for screening. Banks and venture capitalists informally serve to block entry to those who have inadequate capital or experience; nevertheless, many businesses are started each year without adequate resources. There is some evidence that most small business failures can be traced to some type of management failure as depicted in Table 22-2,

Table 22-2 **COMMON CAUSES OF SMALL BUSINESS FAILURE**

Percentage of Business Failures	Cause of Failure
44%	Incompetence
17%	Lack of management experience
16%	Unbalanced experience
11%	Inexperience in line
1%	Neglect
1%-	Fraud or disaster
6%	Unknown

Source: The Dun & Bradstreet Corporation- Reprinted with permission.

Failure can often be a mixed blessing. The manager who learns from his or her past mistakes is in many ways better positioned than one who has not had the experience of failure. Colonel Sanders, of Kentucky Fried Chicken fame, failed at many businesses until he opened a chicken stand at the age of 47. Personal failure and the failure of others serve as important lessons for any manager—in both large and small businesses.

Businesses of any size may fail because of a number of factors including the environment and poor management. These factors are important for both the success and failure of business. Lack of experience in the particular line of business entered contributes to failure; a strong background in one type of business does not necessarily prepare the individual to compete successfully in another business. H. B. Pickle and R. L. Abrahamson report the case of a successful mortician who failed in the jewelry business. Obviously, the two types of businesses had different problems and required different skills.¹³

Finally, excellent management skills may still be associated with failure because of the unfavorable influence of the environment. For

13. H. B. Pickle and R. L. Abrahamson., *Small Business Management*, 3d ed. (New York: John Wiley & Sons, 1984)

example, small businesses in resort areas are extremely vulnerable to both changes in vacation patterns and competition.

Successful Strategies in Small Businesses

A small business cannot choose to compete in the same way as a large one. LaRue Hosrner states that small business strategy must be market based and resource constrained. That is, the successful small business finds a market niche in which it can establish and maintain some market advantage rather than trying to compete head-on with larger businesses in multiple niches. Because the small business lacks the resources to compete simultaneously in several markets, it is forced to develop a competitive advantage in a particular segment of the market.¹⁴

According to J. E. Ross and M. J. Kami, only one strategy is possible in the computer industry, and that is "to react to IBM." Even very large companies that attempted to compete head-on with IBM failed in then computer ventures: RCA, GE, Westinghouse, Hughes Aircraft, Bendix, Raytheon, General Foods, and Philco-Ford all tried and failed.¹⁵

Apple Computer started as a small business competing in a segment of the market that IBM had chosen to ignore—that of personal computers. Others have chosen to piggyback on IBM's success by providing software and services for IBM products that IBM has chosen not to provide. Segment strategies are common among small businesses—Kinko's Copies caters to the needs of college students and faculty for academic copying services. Sandwich delivery businesses have flourished by providing food service to employees of businesses that do not want to provide cafeterias for their work force or to give them a long enough lunchtime to go out for food. "Mom and Pop" businesses of all kinds have been successful because they provide convenience and personal service to areas that are too small to attract supermarkets and other large retailers. Automotive repair shops that work only on Volkswagen Beetles have also been successful by finding a market niche with special needs they can meet. All these businesses have competed successfully by understanding the nature of the environment in which they operate, finding a neglected segment, and gearing their efforts toward meeting those needs. Their success is market based (they have found a market niche with a need they can meet) and resource constrained (they compete in a niche because they lack the resources to compete more broadly).

14. L. T- Hosmer, *Strategic Management: Text and Cases in Business Policy* (Englewood Cliffs, NJ: Prentice-Hall, 1982)

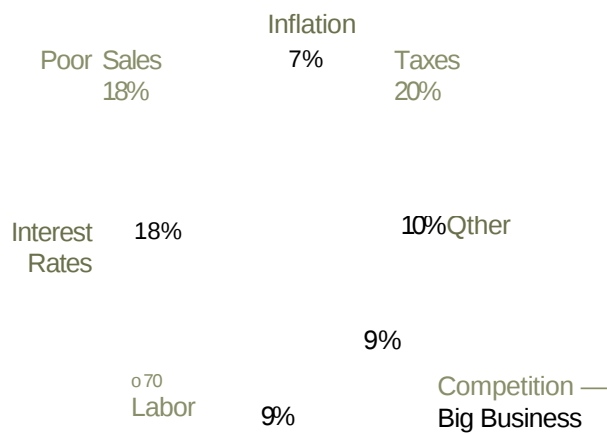
15. J. E. Ross and M. J. Kami, "Computers: Snow White and the Seven Dwarfs[RQ], GE, Univac, Control Data, NCR, Burroughs, Xerox)-" fn *Corporate Management in Crisis, Why the Mighty Fall* (Englewood Cliffs, NJ: Prentice-Hall, 1973)

MANAGING THE SMALL BUSINESS

The small business manager must deal with those unique sets of problems that are associated with small businesses in this country. A recent survey by the National Federation of Independent Businesses (NFIB) indicates a wide range of problems, with taxes, poor sales, and interest rates for financing mentioned most frequently.¹⁶ Figure 22-3 depicts the extent of these problems. ~*

Figure 22-3

SINGLE MOST IMPORTANT PROBLEM OF SMALL BUSINESS



Source: National Federation of Independent Business, Research and Education Division. Reprinted with permission.

Another recent survey asked the owners of a large number of small businesses what they regarded as major pitfalls in managing a small business. The replies identified nine roadblocks:¹⁷

1. Lack of experience with the business.
2. Lack of enough money for start-up and continuation.
3. Choosing the wrong location.

4. *The Small Business Economy—1984* [Washington, DC: Research and Education Foundation, National Federation of Independent Business], 2.

5. Dun and Bradstreet, *The Pitfalls in Managing a Small Business* (1977), 1-20.

4. Inventory mismanagement.
5. Tying up too much money in fixed assets.
6. Poor credit-granting policies.
7. Taking too much out for yourself.
8. Unplanned expansion.
9. Having the wrong mental attitude.

The ideas and the skills developed during the discussion of the functional areas of management presented earlier in this book are as applicable to managing in a small business as they are to a large business. Both the preceding list of pitfalls and the NFIB list of problems perceived by men and women managing small businesses suggest improvement is possible through better planning, organizing and staffing, directing, and controlling.

Planning

The planning process allows the small business manager to look to the future. By assessing organizational and personal strengths, weaknesses, threats, and opportunities, one is able to avoid some of the problems presented—or if they are unavoidable, then at least the small business has taken steps to prepare for them. The budgeting process with its associated cash-flow analysis and pro forma statements are essential to preventing a shortage or lack of capital. Proper planning in the form of site analysis prevents one from going into business in the wrong location. The environmental assessment aspects of the plan give small business a feel for interest rates and inflation. The planning process also provides a means of anticipating and dealing with both government regulations and competitors. We will discuss further the need for a business plan in the section on how to make the small business effective. |

Organizing and Staffing

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Organizing and staffing the organization allows the small business man or woman to develop structures that process information efficiently and effectively. Choosing the right people for the right job is an important decision for managers in any organization. The small business manager must examine the personal characteristics that are required for success. Lack of experience can be compensated for early in the life of the company either by hiring experience or by gaining experience prior to the start of the venture. An appropriate attitude is another area where honest self-assessment is essential. The small business owner/manager must institutionalize the extent of the commitment of both time and emotional resource at the beginning of the start-up phase of the business. As the business grows, the manager's perspective must grow with the business. The das-

sic transition from the small, entrepreneurial organization to the larger, professionally managed organization is a fascinating one. Many small business owners are simply unable to make the change from owner/operator to manager, and their successful business begins to decline after a period of time.

Directing

Directing the behavior of others is a key element of successful small business management. Sales and labor require considerable attention from the small business owner/manager. Goals and objectives are as effective within the confines of the small business as they are in larger organizations. Finally, getting things done through people is as important to small businesses as it is to the larger organizations studied previously in this text.

Controlling

Establishing standards, measuring deviations, and taking corrective action are as much a functional part of the small business manager's responsibilities as they are of the large business manager's. Recall the business problems mentioned earlier in this section. It is readily apparent that many of the problems identified as being serious for small businesses most likely result from either weak or faulty control by management. Such issues as inventory management, credit policies, taxes, record keeping, and lack of money all revolve around the need to control the details within the operating environment of the small business,,

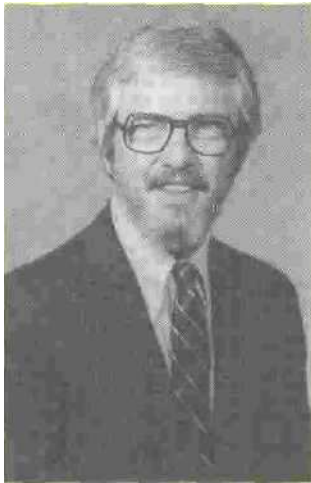
MAKING THE SMALL BUSINESS EFFECTIVE

Surviving and making a profit with a small business are not chance events. It is necessary to set goals and make plans to reach them. A business **plan** helps the owner determine what resources are needed and provides a standard against which to evaluate results. The Small Business Administration publishes a series called *Management Aids* that is designed to help small business owners make successful business plans. The discussion that follows is based on SBA aids for developing business plans in small retail, service, and manufacturing firms.¹⁸

18. For additional information on planning, see the following U.S. Small Business Administration publications: *Business Plan for Small Service Firms*, Management Aids, no. 2.002; *Business Plan for Small Manufacturers*, Management Aids, no. 2.007; *Business Plan for Retailers*, Management Aids, no. 2.020,

Academic Profile

ALAN C. FILLEY



Alan C. Filley (Ph.D., Ohio State University) is Professor of Management in the Graduate School of Business and participating faculty member in *ihc* Industrial Relations Research Institute at the University of Wisconsin-Madison. He is also president of his own consulting firm, A. C. Filley & Associates. Professor Filley's research interests include organizational growth and change, conflict resolution, and organizational design. For the past 20 years, he has worked with thousands of executives of small companies in workshops and through consulting. He also has carried on an extensive research program to determine how smaller firms should be managed for success. Through his experience with small and medium-sized companies, he has gained a reputation as a leading specialist in the processes of successful business growth. Professor Filley has published six books, including *The Compleat Manager*, *Interpersonal Conflict Resolution*, and *Managerial Process and Organizational Behavior*. He is series editor of the Management Application Series published by Scott, Foresman and Company, and is editorial advisor to Research Press.

Q: Do you encourage students to become entrepreneurs?

A: Let me explain what I mean by entrepreneur. Among the many definitions of the term, three are commonly used. First, popular usage these days suggests that the entrepreneur is a promoter who develops a new idea into an enterprise which achieves rapid growth. The popular notion holds that this person has a special personality which includes risk taking, a desire for personal control, and charisma in the eyes of subordinates. Research which Ray Aldag and I have conducted suggests that such leaders would be found in no more than five to ten percent of the business population.

Second, the term is used to mean owner-managers of small businesses. While the estimates of the small business population vary widely between census, internal revenue, and other sources, most of these people are probably operators of enterprises which do not grow much. Such businesses simply provide a living for the owner and his or her family. Finally, the term entrepreneur may be used to identify those who start a new business. Since the skills necessary to start a business are different from those required to manage it, I find this definition to be most useful.

I certainly suggest starting a business as a career option. Many people will satisfy their personal goals more readily by starting and operating their own enterprise than they will by being employed in a large company.

Q: If students are interested in becoming entrepreneurs, will courses taught in business schools be of much help?

A: Business schools emphasize the operation of a firm rather than start-up. They also typically focus on big business situations. The content of a business school education is still important for a small business operator, however. The main difference between preparation for large and small business is one of degree. Small operators need to be skilled in all business functions instead of specializing as they might for big business. Unless a business school has begun to integrate a small business perspective in its classes, the small operator will need to scale down the examples provided to the realities of small enterprise.

A business school also needs to provide information which is needed to plan and start a new enterprise. Actual courses in venture planning are still relatively rare, but with the growing interest in small business management and entrepreneurs!™ they are being added by many schools. Q: What do you think are some of the characteristics of successful entrepreneurs?

A: Patterns associated with successful business initiation show several characteristics to be important. First, the entrepreneur will have a concept¹ which can meet the needs of a defined market. Second, he or she will have developed a plan which identifies the intended domain, the operational details, and the administrative organization required. Third, the entrepreneur will determine how the necessary resources can be obtained. This kind of preparation is tedious for most people, but it definitely increases the odds for success.

A business plan offers at least four benefits:

- A A plan sets out a path to follow. Without a path, it is impossible to determine if the business is going in the right direction.
- ▲ It makes it easier to communicate with bankers and others who can aid the business. Having a business plan indicates to others that the manager has thought out what he or she wants to do and what he or she needs in order to do it. The plan shows details that will be requested by anyone who considers lending money.
- A A plan helps to communicate to sales people, suppliers, and others the business's goals and how they will be reached.
- A It can help one develop as a manager by requiring the manager to work through the process of considering factors that are likely to have an impact on his or her business.

The SBA approach to developing a business plan for any land of business starts by requesting answers to basic questions. Why are you in business? What are your personal goals—making a profit, being your own boss, or producing a quality product? What business are you really in? Although this question may appear silly, not knowing the answer almost cost one owner his business. He thought he was in the marina business—maintaining a dock and renting boats. However, he was really in several businesses because he served meals to boating parties (the restaurant business); he bought and sold lots (the real estate business); and he bought parts and hired mechanics to repair boats (the boat repair business). He was, in fact, in so many businesses that he was unsure of where to put his limited resources. He had no idea as to what kind of return he should expect. He finally decided he was really in the marina business and should concentrate on buying, selling, and servicing boats.

For service and retail businesses, the next steps in developing a business plan are the same. They involve developing a marketing plan. The marketing plan can be broken down into three sections: determining sales potential, attracting customers, and selling to customers.

Determining Sales Potential

Sales potential depends on the location of the service or retail business. In what part of town should the business be located? What is the population and growth potential of the area? What are the ages, incomes, and occupations of the population? Is adequate space available for the business? Are there zoning restrictions that will affect your business? If leasing property, what services does the landlord supply? Are the leasing terms favorable? Is parking or public transportation available to customers? Is there a strong economic base in the area? Does competition exist in this location? What do competitors in the area charge for their products

or services? If you locate in a particular area, what is your sales potential; What other businesses have failed in this location and why?

Attracting Customers

Small retail and service businesses often find that they have or can develop some competitive advantage in attracting customers. Image—the view of the business you want to project—can be crucial in retail and service businesses. Cleanliness, treatment of customers, and employee conduct all contribute to the image of the business. It is important for the owner to know what image she or he wants to project and to make it concrete enough to use in advertising. For example, a small restaurant might project an image of home-cooked meals in a home-like atmosphere.

Pricing also plays an important role in attracting customers. Pricing decisions are based on costs of materials and supplies, expenses of labor and other operating costs, planned profit, and what the competition charges for similar products or services. If your prices are higher than your competitors', what are you offering to justify the higher prices you charge? If you offer credit, the cost of this service will have to be covered in your price,

Selling to Customers

What services do your competitors offer? What do these services cost? Are there other services you could offer that might attract customers away from your competitors? Can you offer the services you want to offer without pricing yourself out of the market?

Before customers can buy, they must know what you have to offer. Advertising informs them. Advertising is the last consideration in the marketing plan. Know what you have to offer before you consider how to advertise it. Image, price range, and services are the kinds of things you, will want to tell prospective customers about when advertising. Decide what you want advertising to do for your business. What facts do you, want to get across, and to whom? Your customer profile becomes very important, because it clearly identifies the target of your advertising' efforts. Determine what it will cost to advertise for the next 12 months. Is this above or below what the competition spends? Keep in mind that no single area in your budget plan can be too far out of line if you expect to be able to make a profit.

The next steps in developing the business plan differ by type of business. In the retail business, the buying function must be consider¹ at this point. The retailer must identify sources of goods to sell—whether they can be bought directly from the manufacturer or through wholesalers and distributors, the buying terms, whether credit is available for the'

business, how quickly sources deliver goods, if fill-in orders are available (do you have to buy a dozen or a gross, or will the supplier ship only one or two items?), freight costs and whose responsibility they are, and delivery time.

In a service business, concerns are different at this point in developing the business plan. The emphasis is on selling—repeat selling—to customers who come to you for services. Identify the types of fixtures and equipment needed to provide your services. From whom are they available? Do they offer a discount? How many days or weeks does it take the supplier to deliver the parts and materials needed in your business? What are the freight costs, and who has to pay them? What is the supplier's fill-in policy? What kind of stock control system is needed to help you keep track of what is on hand, what is on order, and what has been used? What overhead items will be needed to provide the services (rent, utilities, postage, telephone, accountant, licenses, local taxes, payroll taxes, etc.)? If you have employees, their salaries will be part of your overhead.

In the retail business, you also will be concerned with stock control and with stock turnover. What is the average stock turnover of other similar retailing businesses? How many times do you expect your stock to turn over in the next 12 months? How will the behind-the-scenes work of retailing be handled? That is, who will receive merchandise, prepare and maintain displays, and keep the store clean? What equipment will be needed? How much time will be allotted for these activities?

Getting the Work Done

How will your service or retail business be organized? How will you find and train employees and delegate work, responsibility, and authority as the business grows? A helpful tool for answering these questions is an organization chart which shows who is responsible for what and who answers to whom in the organization. It may also be helpful to list all the activities that are necessary in carrying out your business. Determine who will do each activity.

Converting the Plan into Dollars

This is the next step in the planning process for both retail and service businesses. It is necessary to estimate the start-up costs for fixtures and equipment, starting inventory, decorating and remodeling, installation of equipment, deposits for utilities, legal and professional fees, licenses and permits, advertising for the opening, an allowance for accounts receivable, and *the* operating cash needed. Whether the start-up costs come from your personal savings or from a lender, the business has to make enough to pay back the start-up costs.

The next step is to estimate expenses for each of the next 12 months. Will your estimated sales cover your cash needs on a month-by-month basis? If not, where will you get the money you need that is not generated by your sales? If you intend to borrow from a bank to tide you over the lean months, prepare a balance sheet to show your firm's financial condition.

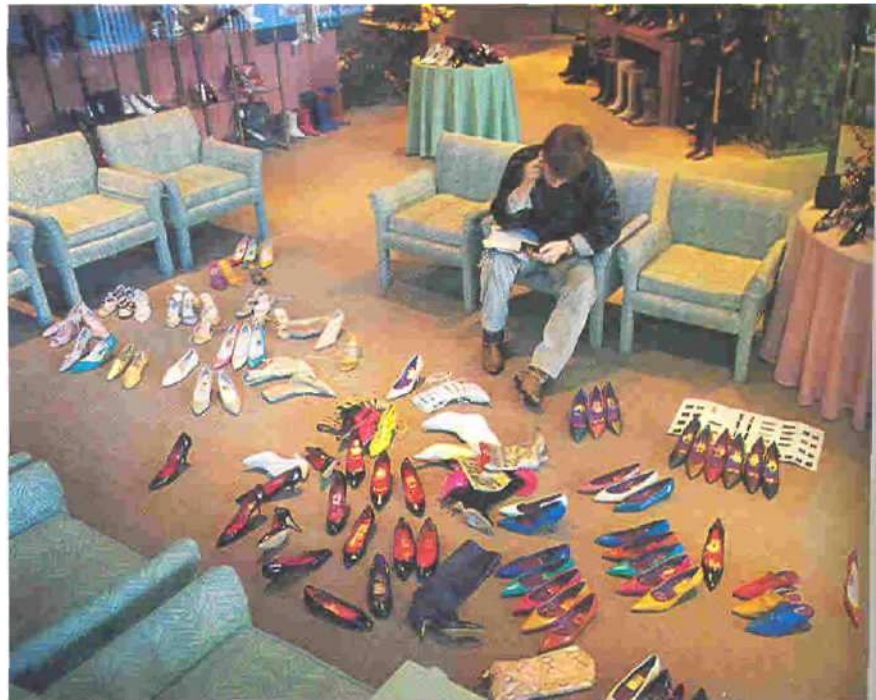
Control and Feedback

The record-keeping system should be set up before the business opens. If this is neglected, the business may never have the time to establish the system properly. Controls should be included to give current information on stock control, sales, and disbursements. It is also important to know the break-even point before starting.

Because the stock control system keeps the business up to date on the status of inventory, the business is better able to offer efficient service to customers while tying up as little money as possible in inventory. Inventory costs include not only the cost of the stock, but also costs of purchasing, keeping inventory control records, and receiving and storing parts and materials.

Control and feedback are most important in the areas of sales and disbursements. Once a firm is operating, it must have systems that can

Inventory control and turnover are especially vital concerns for retail businesses.



provide answers to the following questions: How much did we sell today? How many separate sales were made and on what credit terms? In the very small business, this feedback can come from sales slips and cash register tapes. Are bills being paid on time to get suppliers' discounts? How are funds being used? Are payroll taxes being deposited at the proper times?

Putting Your Plan into Action

At this point in the planning process, it is time to take a look at whether or not the plan is workable. If break-even analysis shows that the business has to have a level of sales considered unreachable, or if any cost items look too high or too low, a revision in the plan is needed. It is also a good idea to have someone who has not been involved in developing the plan to take a look at it. A banker, SBA representative, or some other knowledgeable advisor may be able to identify weaknesses. It is far easier to revise or to make a no-go decision before you invest your money than it is after the business is already underway.

Planning is for action, and unless the plan is put into action, it is merely a dream. Make a list of the steps that must be taken to put the plan into action, and include the dates by which each action is to be taken. Then do it.

Finally, it is necessary to keep the plan current by staying on top of the conditions that affect the business and by adjusting the plan to meet the new conditions. A regular review of the plan is a good idea, perhaps monthly or bimonthly. After you have been in business for a while, there will be more accurate information to work with. The plan should be revised to reflect this new information. "A good business plan must evolve from experience and the best current information."¹⁹

Small Manufacturing

The planning steps outlined are for small retail and service firms. How does a business plan for a small manufacturing business differ? The SBA guide for small manufacturers suggests that after deciding why one is in business and what business one is in, it is a good idea to identify the standard industrial classification (SIC) of the product and industry. Information is available by industry and product type that may be helpful in marketing planning.

Next, identify market area and competitors. Careful analysis is needed to determine what advantage(s) the business has over its competitors. Is it price? performance? durability? versatility- speed? accuracy? ease of operation, maintenance, repair, or installation? size or weight?

19. *Business Plan for Retailers*, no. 2.020, 10.

style or appearance? What unique features does the product have? As a manufacturer, one also must determine how and where the product will be distributed and what the distribution costs will be.

For the manufacturer, trade associations may be good sources of information in identifying market trends for the past few years and in making predictions about future trends. An estimate of the share of the market you expect to serve once your enterprise is in full operation is an important part of a manufacturing business plan.

In a manufacturing plan, attention must be given to planning production. Determining what production facilities are needed requires that the production process be analyzed. What basic manufacturing operations are necessary? What raw materials are required and where will you get them? How much raw materials inventory will have to be maintained? Are there special storage requirements for any of your raw materials such as flammable materials or materials with limited shelf lives? What manufacturing equipment is required? How will you comply with the Occupational Safety and Health Administration (OSHA) requirements for your operation? What labor skills are necessary to run the equipment, handle materials, and otherwise keep the plant operating? Where will you find people with the needed skills? How much space is required for manufacturing and supporting facilities? What local ordinances apply? Estimate your overhead [indirect labor, tools, supplies, utilities, office help, salaries for key people, etc.).

At this point, the manufacturing business plan proceeds as do plans for other small businesses by estimating the money needed for start-up and the first year's cash flow, developing an organization chart, setting up control systems, and systematically revising the plan and keeping it up to date.

THE BASICS OF STARTING YOUR OWN BUSINESS

The ancient Chinese philosopher Confucius once said, "Choose a job you love, and you will never have to work a day in your life." For many students reading this text, that job will involve starting their own business.

Starting one's own business involves answering three central questions in detail: (1) what business should be started?; (2) is this business feasible?; and (3) what steps must be taken to open the business?

What Business Should Be Started?

This depends upon one's marketing skills, technological skills, and personal finances, and often entails doing a self-assessment before cota-

mitting to opening a new business. If one has several thousand dollars to spend, a professional consultant can be hired to do a study. Normally, a person will need to have a well-defined idea of what it is that he or she wants to do. Most people conduct their own initial study—focusing on what interests them, and where they feel they might make money.

It is usually a mistake to compete head to head with an ongoing operation—a "me too" approach is based on the assumption that one can take away a lot of the competition's business by competing on a price basis. While this may be true, remember that competitors can always choose to "bite the bullet" and match the lower prices. This results in price competition which plays real havoc with profit margins. To be successful, a potential small business person should have a number of good reasons, other than price, which will cause customers to switch over. These could include a distinctly better product, better service, a more convenient location, or some other competitive advantages.

Is This Business Feasible?

Once your idea for a business has been evaluated, you must still analyze the market for your product or service to see if your venture will be profitable. A market feasibility study will allow you to pinpoint the kinds of information you need to develop in order to satisfy yourself that a good market exists for whatever you are planning to sell. Figure 22-4 shows a worksheet which represents the format of a market feasibility study. The questions on this worksheet cannot be answered with a yes or a no,—rather, the answers must be written out in detail. Answering these questions in detail gives one a better feel for the business and its potential.

What Steps Are Needed to Open the Business?

There are eight major steps that a small business man or woman must take in order to get a business going. Individual situations will vary, of course, and these steps will probably need to be adjusted to suit the particular situation:

1. *Prepare a written business plan for your venture.* We have discussed this in detail in the section on making a business effective. The business plan answers three specific questions: (1) where are you?; (2) where do you want to be?; and (3) how will you get to where you want to be?
2. *Consult the professionals needed to get the business off to a good start.* Accountants will offer sound advice on a variety of business-related topics and can be big contributors to the successful start-up and operation of the firm. An attorney will help one understand all the licenses and permits needed, all the forms that must be com-

Figure 22-4 **MARKETING FEASIBILITY****Your Product or Service**

1. Describe the nature of the product *at* service yoB will offer.
2. Which stage of the product life cycle is your product or service in: introductory, growth, maturity, or decline?
3. What edge do you believe your product or service will have over similar products that are already offered or that may be introduced by new competitors?
4. How *do* y^u.iptgnd %Q \$ake roarket share away from competitors?

Your Customers

5. Describe your customers in terms of their geographic area; age and/or sex
»j income level; and social, cultural, and ethnic factors,

Ifour Competition

ii£i iTihernain competitors ih my market area are as follows;

7. Three reasons why customers would buy from me rather than from my competitors include the following:

■:§>. Three weaknesses my business will have as compared to these of my competitors, are as follows;

9¹. I will overcome these weaknesses by:

pleted, and the decisions that must be made before the doors are opened. He or she will save you from unintentionally breaking laws. A banker will probably be one of the most frequent professional contacts, whether the business is just starting up or has been in operation for some time. If money is borrowed from a bank, the banker will be keenly interested in the success of the venture, because the bank wants to see that the loan is made good. Insurance agents will help with decisions about how much and what types of coverage are essential in the start-up situation. Talk to several agents in order to compare rates, and choose an agent with whom you are comfortable and confident.

Make a decision about the legal form of organization yow businm Will follow. Sole proprietorships, partnerships, and corporations each have advantages and disadvantages.

4. *Determine the type of financing which best fits the situation.* Start ups generally find that there are many sources of money available. These sources are listed in order of accessibility:
 - A Personal savings, family, and friends.
 - A Life insurance policies.
 - A Mortgaging real estate.
 - A Commercial bank financing.
 - A Savings and loan associations.
 - A The U.S. Small Business Administration [SBA].
 - A Farmer's Home Administration.
 - A External financing by selling ownership of the business.
 - A Private venture capital.
5. *Decide on the best location for the firm.* Choosing a location is crucial to the success of most small businesses. A detailed analysis of the type of business that you are in, coupled with an analysis of the type of customers that you are dealing with are the first steps toward choosing a good location.
6. *Obtain the required licenses and permits for the particular business location chosen.* Businesses are subject to regulation by three different governmental jurisdictions—local, state, and federal. Men and women managing small businesses must check with each of these levels of government to make certain that they are complying with all regulations which pertain to their business. An attorney should help with this stage of the start-up.
7. *Register with the appropriate authorities for tax collection; employee withholding; and safety, health, and pollution control inspections if applicable to the business.* At this stage, an accountant and an attorney can offer appropriate advice.
8. *Become involved with professional and community organizations in the area, and participate in the educational programs they offer.* The local chamber of commerce is a key organization in most communities. The chamber will help business owners in a variety of ways including sponsorship of seminars on business topics. It also offers individual counseling.

IMPLICATIONS FOR MANAGEMENT

As an entrepreneur or small business owner, an individual is placed in the position of having to handle all aspects of the business. Planning, organizing and staffing, directing, and controlling functions are the owner's responsibility, whether she or he assumes these responsibilities or assigns them to someone else. Few managers in a larger business

are in a position to be entrusted with that level of responsibility, but for the small business owner, such responsibility goes with the territory..

For the small business owner, all the preceding sections of the text are important. If the owner does not know and practice the principles and functions discussed, who will do so in the small business? As the top manager in the organization, the small business owner must divide the work to structure the organization; set objectives; create communication systems; see to it that staff members are selected, trained, and compensated; apply motivation theory and practice leadership; gather information and make decisions; select a strategy for competing in the industry; make sure the appropriate legal and regulatory requirements are met; set standards and measure results; and manage planned change as necessary.

The chances are quite high that a good number of those of you who read this text will at some point in your working lives start your own small businesses. This chapter has attempted to acquaint you with the values and characteristics of small business owners and entrepreneurs, the opportunities for creating your own business, and the contributions that small businesses make to the economy as a whole.

KEY TERMS AND CONCEPTS

business plan entrepreneur
entrepreneurship
entrepreneurial venture
Equal Access to Justice Act
intrapreneurship market
feasibility study
Occupational Health and
Safety Administration
(OSHA)

Regulatory Flexibility Act
small business Small
Business
Administration (SBA)
small business owner
small business venture
Standard Industrial
Classification (SIC)

REVIEW QUESTIONS

1. What is meant by the term *small business*!
2. What does it mean to be an entrepreneur?
3. List some of the popular myths about entrepreneurs. Explain, why they are not accurate.
4. Entrepreneurs have certain characteristics. What are they?
5. What factors in the environment impact on small businesses!
6. Small businesses complain about government regulatory requirements. Describe some of these requirements and how they may harm small businesses.
7. Identify some of the reasons why small businesses sometime fail.
8. Why is planning important to the small business?
9. Describe some of the factors that help to make the small business more effective,
10. What are some of the basic issues involved in starting a business?

1 11. What aids are available from the Small Business Administration for individuals who want to start their own businesses?

CASE 22 A The Rural Card Shop

Twenty-two-year-old Janet Brumby is close to graduating from the local university. She is a business major with a concentration in marketing. Janet is considering opening a Hallmark card shop in a small town in the northern part of the state. She is excited about the prospect and has been encouraged by her family, friends, and the people with whom she works. There are 6000 independent Hallmark shops in the United States, which have estimated annual sales of \$800 million (1986).

The town, Brunswick, is located in a mountainous area about 90 miles north of a metropolitan area of 2 million people. The economy of Brunswick is based upon farming and textiles. The last census indicates that there are 11,230 people in the county [49 percent male and 51 percent female] in 4500 households. There were 136 marriages last year. Unemployment is 6.1 percent. Income figures for the county are as follows:

Median income	\$13.26
\$15,000 or more	36.7%
Below poverty	23.9%
Total personal income	\$85 ,000,00
Per capita income	\$7,406
Annual sales for 124 retail establishments	\$71 ,812,00

One of the county commissioners said recently, "Twenty years down the road, I see this county having 65,000 to 70,000 people." There are no card shops in the county. Earlier in the year, Janet conducted a small market research project which indicated that people would patronize a card and gift shop if one were opened. They have not been satisfied with the limited number of cards offered by existing merchants. There appear

to be too many sentiments and occasions left unfulfilled by these shops. The nearest complete card shop is an hour's drive away from Brunswick.

Janet has calculated her start-up costs as follows:

Monthly rent	\$2,235
Equipment	\$1,705
Furniture and fixtures	\$17,750
Administrative costs	\$3,545
Inventory costs	\$32,000
Working capital	<u>\$17,000</u>
TOTAL START-UP COSTS	\$74,235

Janet has also calculated her total monthly expenses to be roughly \$6,542. She predicts revenues of \$5,679 per month during the first year, \$10,411 per month during the second year, and \$13,500 per month during the third year.

Janet has \$3,000 saved. Her parents will lend her \$10,000, and her present employer wants to invest \$3,000. All of her plans and calculations are based upon the projection that she will be both owner and manager. No additional employees will be hired during the first year.

1. Should Janet Brumby open a Hallmark card shop?
2. What sort of management problems can she expect?
3. Outline the type of planning that she needs to do prior to her decision to open the shop.
4. What sort of organizing and staffing issues should she be aware of?
5. What type of controls should she consider that might be used to increase the chances of success for her enterprise?

