

# SMALL BUSINESS MANAGEMENT

*Launching and Growing New Ventures*



**LONGENECKER,  
DONLEVY, CHAMPION,  
PETTY, PALICH, HOY**

# Small Business Management

## Launching and Growing New Ventures

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Sixth Canadian Edition

# Small Business Management

## Launching and Growing New Ventures

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by Justin G. Longenecker, Leo B. Donlevy, Terri Champion,  
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# Preface

Welcome to the sixth Canadian edition of *Small Business Management: Launching and Growing New Ventures*. This is a book that started as the only Canadian book in the field of small business management over 17 years ago and continues to be the leader. We attribute our success to the same thing we see in successful Canadian entrepreneurs: passion. Our passion comes from business experience with entrepreneurial ventures, the knowledge we have gained, and years of teaching practical, applied entrepreneurship to thousands of Canadian and international students. Through this book we strive to pass on the critical knowledge and skills you will need to join the ranks of successful Canadian entrepreneurs.

We agree with the age-old saying that you can't know a book by its cover. But you can learn a lot about a textbook and its success simply by knowing how many students have chosen to keep it rather than sell it back to a bookstore at the end of a semester. In the case of *Small Business Management*, a large number of students have made it a part of their permanent library.

Why do so many consider the book to be a “keeper?” We believe that they find in its pages practical ways of thinking and acting that help them achieve their dream of starting and building successful enterprises. For example, readers have described how the chapters on finance helped them to understand financial statements and to make better decisions based on that information. Others have said that the business plan chapter, with the real-life examples it presents, provides an excellent guide for writing their own plans. Finally, many describe how the chapters on managing the business have kept them from making the kinds of mistakes that others have made.

Owning and managing a small firm has allowed many people to make their dreams come true. It is our hope that what we present in this book—and the tools and ancillaries that accompany it—will support the varied goals of those seeking independent business careers, either directly or indirectly, through the wise counsel of the instructor who has selected this book.

There has never been a more exciting time to be an entrepreneur! If you are committed strongly enough to your dream, in one creative way or another you will overcome the obstacles that lie ahead. New ventures can create tremendous personal value for both entrepreneurs and the investors who back them with time and money.

New ventures can also protect and improve quality of life by creating jobs and providing new services.

In writing *Small Business Management* we celebrate the initiative of small business owners and entrepreneurs for their success and important contributions to the fabric of Canada's economy and society. The book features vignettes and cases about many of them, including students whose businesses either started while taking college or university courses, or grew from ideas born in those same classes.

Throughout the text, we emphasize the importance of building relationships along the way. Managing a business is a team sport. As the owner, you will be the key to making the basket, reaching the goal line, crossing home plate, jumping the net (or whatever analogy you want to use)—but you cannot do it alone. Even if you are the company's only employee, working alone in your own apartment or basement or in your parents' garage, you still have relationships with and depend on others, including your family, a banker, a former professor, and/or a key customer or supplier. You must be effective in your relationships with other people, including those you don't control. The bottom line: You cannot accomplish anything of any real significance by yourself!

## OUR GOALS FOR THIS EDITION

*Small Business Management: Launching and Growing New Ventures*, Sixth Canadian Edition, incorporates current theory and practice relating to starting, managing, and growing small firms. We provide well-balanced coverage of critical small business issues, and we believe that our diverse backgrounds have contributed to that goal. In developing this book, we kept three primary goals in mind. First, we gave readability a high priority by continuing to write in the same clear and concise style that students appreciated in the last edition. Second, we included numerous real-world examples to help students understand how to apply the concepts discussed in the text. And, finally, we incorporated material to help students explore small business issues in the amazing world of the Internet.

## WHAT'S NEW IN THE SIXTH EDITION?

A primary purpose of *Small Business Management* is to present current, relevant content in unique and interesting ways, drawing on an abundance of real-world examples to keep the reader totally engaged. This edition offers plenty that's new, including the following:

- A new pedagogical feature has been added that complements the other integrative features of the text. We have added questions at the end of the chapter-opening *In the Spotlight* feature and the *Entrepreneurial Experiences* features. These questions help the reader to better understand and relate the chapter material to the real-life entrepreneurial challenges and successes. In addition we have provided many new examples of entrepreneurs in action, such as Ryan Holmes of Hootsuite or Leah and John Garrad-Cole of Love Child Organics.
- Chapter 1, *Entrepreneurs*, provides updated statistics relating to the number of entrepreneurs and small businesses in Canada, and current information on the changing face of entrepreneurship, such as younger and older entrepreneurs, social entrepreneurs, and serial entrepreneurs.

- Chapter 2, *Start-up and the Need for Competitive Advantage*, provides expanded coverage of assessing the environment and organization using outside-in and inside-out analysis.
- In Chapter 4, *Franchising and Buyouts*, the coverage of franchising has been thoroughly revised with updated statistics and coverage of franchise checklists, franchise disclosure documents, as well as new material on due diligence, business brokers, and non-disclosure agreements.
- Chapter 5, *Developing an Effective Business Plan*, continues to highlight the importance of having an effective business plan, including new coverage of the lifestyle and full business plan.
- Chapter 6, *Small Business Marketing, Product, and Pricing Strategies*, and Chapter 7, *Distribution and Promotional Strategies*, have been thoroughly reorganized with pricing moved to Chapter 6 and distribution strategies moved to Chapter 7 to better align with the standard 4 Ps.
- Chapter 10, *Form of Organization and Legal Issues*, contains updated information on Canadian tax rates and laws and how they apply to small business.
- Chapter 11, *Selecting a Location and Planning the Facilities*, has updated coverage of e-commerce, including new coverage of content-based and information-based e-commerce models.
- Chapter 12, *Operations Management and Control Systems*, has been revised to provide a stronger focus on the operations process and the tools and techniques of quality management, including new coverage of bottlenecks, constraints, poka-yoke, project manufacturing, and synchronous management.
- Understanding and using financial information is often difficult for small business owners and students, so the two chapters dealing with financial performance and management, Chapter 13, *Understanding Financial Statements and Forecasting*, and Chapter 14, *Sources of Financing*, have been carefully and thoroughly revised to make the issues easier to understand. New trends, such as crowdsourcing, are also explored in Chapter 14.
- Five new cases have been added to the case section at the end of the text, including Dillon's Small Batch Distillers, Two Men and a Truck, and Numi Tea. These and other relevant cases provide opportunities for students to apply chapter concepts to entrepreneurial situations in a realistic and timely way.
- We also provide a new example of a complete business plan in Appendix A: Magma Thermal Barriers. This plan is for a more substantial new venture than those in previous editions. The plan identifies an opportunity for a new company to offer spray-foam insulation as an alternative to fiberglass insulation to both the new home construction and renovation markets. The authors of the plan have done a good job showing how the opportunity could be capitalized on to create a successful new venture.

## ACHIEVE YOUR BEST

*Small Business Management* is organized to help students and future entrepreneurs achieve success in whatever field they choose. The wide spectrum of content, applications, cases, graphics, stories, and other details offered in the book has assisted many small business entrepreneurs in making their dreams come true. With a focus on learning, our features emphasize hands-on activities that capture student interest and guarantee practical knowledge.

### UNIQUE SPOTLIGHT FEATURES

The chapter-opening “In the Spotlight” features profile an amazing collection of small business owners whose unique insights into how to start, run, and grow a business will help readers identify and explore the full range of issues facing today’s business owners.

### INTEGRATED LEARNING SYSTEM

Our integrated learning system uses each chapter’s learning objectives to give structure and coherence to the text content, study aids, and instructor’s ancillaries, all of which are keyed to these objectives. The numbered objectives are introduced in the “Looking Ahead” section, and each is concisely addressed in the “Looking Back” section at the end of each chapter.

The integrated learning system also simplifies lecture and test preparation. The lecture notes in the Instructor’s Manual are grouped by learning objective and identify the appropriate slides prepared in PowerPoint® that relate to each objective. Questions in the Test Bank are grouped by objective as well.

### ENTREPRENEURIAL EXPERIENCES

Practical examples from the world of small business and entrepreneurship carry both instructional and inspirational value. “Entrepreneurial Experiences” features appear at critical junctures throughout the chapters, refuelling and refreshing chapter concepts with documented experiences of practising entrepreneurs.

### “YOU MAKE THE CALL” EXERCISES

“You Make the Call” situations at the end of each chapter are very popular with both students and instructors because they present realistic business situations that require examining key operating decisions. By taking on the role of a small business owner in these exercises, students get a head start in addressing the concerns of small businesses.

### CASES

Cases—including five new to this edition—are available for each chapter, providing opportunities for students to apply chapter concepts to realistic entrepreneurial situations. A case grid outlines the chapters and related topics that apply to each of the cases and can be found on page 448 of the book.

## SUPPLEMENTARY MATERIALS

All resources and ancillaries that accompany *Small Business Management*, Sixth Canadian Edition, have been created to support a variety of teaching methods, learning styles, and classroom situations.



### ABOUT THE NELSON EDUCATION TEACHING ADVANTAGE (NETA)

The *Nelson Education Teaching Advantage* (NETA) program delivers research-based instructor resources that promote student engagement and higher-order thinking to enable the success of Canadian students and educators. To ensure the high quality of these materials, all Nelson ancillaries have been professionally copy-edited.

Be sure to visit Nelson Education’s **Inspired Instruction** website at <http://www.nelson.com/inspired/> to find out more about NETA. Don’t miss the testimonials of instructors who have used NETA supplements and seen student engagement increase!



## INSTRUCTOR RESOURCES

### DOWNLOADABLE SUPPLEMENTS

All NETA and other key instructor ancillaries are provided on the Instructor Companion Site, giving instructors the ultimate tool for customizing lectures and presentations.

**NETA Test Bank:** This resource was written by Richard Yip-Chuck, Humber College. It includes over 675 multiple-choice questions written according to NETA guidelines for effective construction and development of higher-order questions. The Test Bank was copy-edited by a NETA-trained editor for adherence to NETA best practices. Also included are true/false, essay, and short answer questions.

The NETA Test Bank is available in a new, cloud-based platform. **Testing Powered by Cognero®** is a secure online testing system that allows you to author, edit, and manage test bank content from any place you have Internet access. No special installations or downloads are needed, and the desktop-inspired interface, with its drop-down menus and familiar, intuitive tools, allows you to create and manage tests with ease. You can create multiple test versions in an instant, and import or export content into other systems. Tests can be delivered from your learning management system, your classroom, or wherever you want. Testing Powered by Cognero for *Small Business Management* can also be accessed through <http://www.nelson.com/instructor>. Printable versions of the Test Bank in Word and PDF versions are available through your sales and editorial representative.



**NETA PowerPoint:** Microsoft® PowerPoint® lecture slides have been adapted for every chapter. We offer two separate collections. The Basic PowerPoint collection contains an average of 25 slides per chapter. This collection is a basic outline of the chapter and contains key figures, tables, and photographs from the sixth Canadian edition of *Small Business*. The Expanded PowerPoint collection includes an average of 40 slides per chapter and provides a more complete overview of the chapter. NETA principles of clear design and engaging content have been incorporated throughout, making it simple for instructors to customize the deck for their courses.

**Image Library:** This resource consists of digital copies of figures, short tables, and photographs used in the book. Instructors may use these jpegs to customize the NETA PowerPoint or create their own PowerPoint presentations.

**Instructor's Manual:** The Instructor's Manual to accompany *Small Business Management* has been prepared by Jay Kryslar at NAIT. This manual contains lecture notes grouped by learning objective and tied to PowerPoint slides that relate to each objective. The manual also contains answers to the "Discussion Questions," comments on "You Make the Call" situations, and teaching notes for the cases to give you the support you need in the classroom.

**LivePlan®:** Students can now learn how to use the award-winning, best-selling professional software *LivePlan* to create a business plan. This online resource provides all the essentials to create winning business plans, including step-by-step instructions for preparing each section of a plan. Ready-to-customize samples, advice, a detailed marketing analysis with links to demographic and marketing tools, and helpful financial tools make it easy to create a solid plan. Video and written tutorials from Palo Alto Software founder Tim Berry ensure that students fully understand how to maximize *LivePlan's* dynamic tools.

**Video (0-17-659122-2) and Video Guide:** A DVD has been prepared to accompany *Small Business Management: Launching and Growing New Ventures*. Designed to enrich and support chapter concepts, these new and exciting videos from the highly acclaimed CBC television show *Dragons' Den* explore many of the issues relevant to small businesses in Canada and bring the real world of entrepreneurship into the classroom to let students learn from the experts. Each of the video segments presents entrepreneurs who pitch their concepts and products to a panel of Canadian businesspeople. The video segments were selected by the authors to challenge the student and to stimulate a lively discussion. And nothing helps students master the lessons of small business and entrepreneurship as much as seeing them put into practice. The videos are also supported by a video guide, which includes a synopsis of each video, teaching notes, and case study questions with solutions.

**DayOne:** Day One—Prof InClass is a PowerPoint presentation that instructors can customize to orient students to the class and their text at the beginning of the course.

## STUDENT ANCILLARIES



### MINDTAP

MindTap for *Small Business Management* is a personalized teaching experience with relevant assignments that guide students to analyze, apply, and elevate thinking, allowing instructors to measure skills and promote better outcomes with ease. A fully online learning solution, MindTap combines all student learning tools—readings, multimedia, activities, and assessments—into a single Learning Path that guides the student through the curriculum. Instructors personalize the experience by customizing the presentation of these learning tools to their students, even seamlessly introducing their own content into the Learning Path.

Visit [www.nelson.com/student](http://www.nelson.com/student) to start using MindTap. Enter the Online Access Code from the card included with your text. If a code card is *not* provided, you can purchase instant access at [NELSONbrain.com](http://NELSONbrain.com).

## SPECIAL THANKS AND ACKNOWLEDGMENTS

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As a final word of appreciation, to the many instructors who use our text in both academic and professional settings. Ultimately, it is your evaluation that is important to us. We view ourselves as partners with you in this venture, and we wish to be sensitive to your wishes and desires whenever possible. Please write or call us to offer suggestions to help us make the book even better for future readers. You can contact Leo B. Donlevy at [leo.donlevy@haskayne.ucalgary.ca](mailto:leo.donlevy@haskayne.ucalgary.ca) or Terri Champion at [tchampion@niagaracollege.ca](mailto:tchampion@niagaracollege.ca). We would love to hear from you.

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Justin G. Longenecker's authorship of *Small Business Management* began with the first edition of this book. He authored a number of books and numerous articles in journals such as *Journal of Small Business Management*, *Academy of Management Review*, *Business Horizons*, and *Journal of Business Ethics*. He was active in several professional organizations and served as president of the International Council for Small Business. Dr. Longenecker grew up in a family business. After attending Central Christian College of Kansas for two years, he went on to earn his BA in political science from Seattle Pacific University, his MBA from Ohio State University, and his PhD from the University of Washington. He taught at Baylor University, where he was Emeritus Chavanne Professor of Christian Ethics in Business until his death in 2005.

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## TO THE STUDENT

As authors of *Small Business Management: Launching and Growing New Ventures*, Sixth Canadian Edition, we must measure our success by the effectiveness of our presentation to you. Although you may not be involved in selecting this textbook, we consider you our customer and wish to be sensitive to your needs in learning the material presented. For this reason, we have made every effort to make it understandable and relevant. We have also tried to consider your viewpoint in each chapter we have written.

We extend our best wishes to you for a challenging and successful learning experience!

# PART 1

# ENTREPRENEURIAL OPPORTUNITY

- 1 Entrepreneurs

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- 2 Start-Up and the Need for Competitive Advantage

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- 3 Family Enterprise

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- 4 Franchising and Buyouts

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# CHAPTER 1

# ENTREPRENEURS

## LOOKING AHEAD

*After studying this chapter, you should be able to*

- 1** Discuss the availability of entrepreneurial opportunities.
- 2** Explain the nature of entrepreneurship and how it is related to small business.
- 3** Define small business and identify the importance of small business.
- 4** Identify rewards and drawbacks of entrepreneurial careers.
- 5** Describe the various types of entrepreneurs and entrepreneurial ventures.
- 6** Discuss the changing face of entrepreneurship in Canada.
- 7** Describe some characteristics of successful entrepreneurs.



Courtesy of Hootsuite Media, Inc.



## IN THE SPOTLIGHT

### Go Big and Stay Home

As the CEO of Hootsuite, a rapidly growing social media company based in Vancouver, B.C., Ryan Holmes isn't afraid to set the bar high. His goal? To build Hootsuite into a billion-dollar company in a country that has experienced its share of technology start-up heartbreaks and sellouts. But if Holmes has his way, Hootsuite will hold onto its Canadian roots and become the backbone of Canada's technology sector.

Hootsuite offers users a social relationship platform that can link Facebook, Twitter, LinkedIn, Google+, and many other profiles together in one account, allowing users to send single messages across multiple platforms. Like LinkedIn, Hootsuite operates using a freemium model (where there is no charge to the typical user) with the option of upgrading to a premium account for expanded features or an enterprise account for companies that want to tap into comprehensive analytics and reports to monitor their social media presence.

To some, Holmes is an unlikely entrepreneur—a seemingly laid-back 30 something West Coaster who loves yoga, rock climbing, and his dog Mika. However, Holmes is serious about business and can best be described as a serial entrepreneur. He started his first business, a paintball company, in high school and then during his last year of business school, got into the pizza business. A few years later he set his sights on the technology sector, launching Invoke Media, a digital services company that led to the development of Hootsuite, which he later spun out into a separate company in 2008. Hootsuite's growth has been nothing short of explosive, after five years the company has grown to over 9 million users and 500+ employees, moving Holmes closer to his billion-dollar goal.

As a serial entrepreneur with business in his blood, Holmes is not content to simply focus on his own business. Holmes participates as an angel investor and business adviser, mentoring other entrepreneurs in Canada and around the world and has partnered with major universities to deliver social media courses to future entrepreneurs as part of Hootsuite University. His belief is that Canada can support a thriving tech industry, as long as we can develop an entrepreneurial environment that will facilitate growth. And this can only help his efforts in reaching his goal—making Hootsuite a global brand worth a billion dollars.

#### DISCUSSION QUESTIONS:

1. What do you think motivated Ryan Holmes to pursue entrepreneurship?
2. Do you think Ryan Holmes is a born entrepreneur?

Sources: Trevor Melanson, "Is HootSuite Canada's Next Billion-dollar Titan?" *Canadian Business*, January 9, 2013, available at: <http://www.canadianbusiness.com/technology-news/is-hootsuite-canadas-next-tech-titan/>; Drake Bear, "How HootSuite CEO Ryan Holmes Is Building a Yoga-loving Maple Syrup Mafia," *Fast Company*, October 3, 2013, available at: <http://www.fastcompany.com/3019055/bottom-line/how-hootsuite-ceo-ryan-holmes-is-building-a-yoga-loving-maple-syrup-mafia>; and 30 Second Mentor, "Ryan Holmes: What Are the Hot Markets?" *Financial Post Online*, August 2, 2013, available at: <http://business.financialpost.com/2013/02/08/ryan-holmes-what-are-the-hot-markets/>

Would you like to become an entrepreneur, to start and operate a small business of your own? If so, you are not alone. In 2011, 2.67 million Canadians were self-employed, representing 15.4 percent of the employed workforce. Over the past decade the number of self-employed in Canada has grown by 17 percent, compared to 15 percent for the overall labour force. Approximately 10 percent of the Canadian population currently owns a business and, looking to the future, 11.2 percent of Canadians intend to start a business at some point in their lives.<sup>1</sup>

Entrepreneurial fever is also sweeping the nation's campuses, as students in high school, postsecondary, and graduate school take classes to learn how to develop, launch, and run their own companies. An entrepreneurial career can provide an exciting career path and substantial personal rewards, while also contributing to the development of healthy and sustainable communities. As a general rule, when you talk to entrepreneurs about what they are currently doing and what their plans are for the future, you can feel their excitement and anticipation—which can be contagious!

However, business students are not the only ones interested in entrepreneurship; today engineers, graphic artists, pharmacists, health care professionals, and many others are hearing the call to own their own businesses. In addition, employers from across all industry sectors are actively seeking out prospective employees that have an entrepreneurial mindset and are able to apply their entrepreneurial skills and abilities within a work environment—referred to as intrapreneurship. There is considerable evidence suggesting that the study of small business and entrepreneurship can facilitate the learning curve for those who want to explore entrepreneurial opportunities by teaching many of the basic skills needed, such as understanding financial statements, writing a business plan, and imposing structure and deadlines on dreams that you might never achieve otherwise. As such, you are about to embark on a course of study that will prove invaluable to you, whether you elect to pursue an entrepreneurial path or decide to work for an organization while applying your entrepreneurial mindset.

1 Discuss the availability of entrepreneurial opportunities.

**entrepreneurial opportunity**  
an economically attractive and timely opportunity that creates for buyers

## ENTREPRENEURIAL OPPORTUNITIES

Entrepreneurial opportunities exist for those who can create, develop, and produce enough products or services desired by customers to make the enterprise economically attractive. A promising entrepreneurial opportunity is more than just an interesting idea, it involves a product or service that fulfills a customer need and offers a competitive advantage that customers are willing to pay their hard-earned money for it. In other words, an entrepreneur must find a way to create value for customers.

Our working definition of **entrepreneurial opportunity**, as an economically attractive and timely opportunity that creates value for buyers, distinguishes between opportunities and ideas. At any given time, many potentially profitable business opportunities exist but not all opportunities will be equally attractive to everyone. These opportunities must be recognized and grasped by individuals with abilities and desire strong enough to assure success. Not only are there diverse opportunities available to entrepreneurs looking to launch a business, but also varying levels and definitions of success. Some entrepreneurs are quite successful, some achieve more modest rewards, and others fail. However, as many entrepreneurs will attest to, learning to fail is a part of the entrepreneurial process as it often takes repeated attempts to ultimately succeed in business.

## ENTREPRENEURIAL EXPERIENCES



### Triple Flip

“Mom, I have nothing to wear!!!!” Sound familiar? For Linda Maslechko and Mona Rae Peterson, mothers to five girls between them, this was the jumping off point for Triple Flip, a retail concept that caters to preteen and tween girls who want high-quality, fashionable clothes and accessories to match their busy, activity-filled lifestyle. Based in Calgary, Alberta, co-owners Linda and Mona Rae researched the market, after finding out through firsthand experience with their girls that the retail industry offered little for the preteen girl. As they put it, there was “no brand for them to aspire to” and with that, they decided to pursue what they considered to be a niche market, creating a positive, inspirational brand that would not only appeal to young girls, but also meet the needs of parents when it came to value, quality, and fit. Triple Flip is proud of the fact that they use measurements of real preteen girls and take into account the variety of shapes and sizes tweens come in versus what many larger clothing retailers do, which is simply adapting designs made for adults.

The first Triple Flip store opened in Calgary in 2005; following that success, the company has grown to 10 locations in Alberta, Saskatchewan, Manitoba, and Ontario. Linda and Mona Rae

believe their success is based on the commitment they have to their customers, taking the time to solicit opinions from their target market, to ensure their needs are being met. The company believes that superior customer service and the use of social media and community involvement has helped it create a unique and differentiated brand in the competitive retail apparel industry. At least once per year, Triple Flip stores across Canada select 24 local girls to be Flip Girls, acting as models for their local stores in posters, online, and even as live mannequins in stores during special promotions.

#### QUESTION:

1. What competitive advantage does Triple Flip provide to its customers?

*Sources:* Sean C. Tarry, “Calgary’s Original Flip Girls,” *Canadian Retailer*, Winter 2011, pp. 25–28; <http://tripleflip.ca/>; and Rebecca Horan, “Triple Flipping Out: Winnipeg’s Newest Fashion Destination for Tweens,” June 28, 2012, *Metronews.ca*, available at: <http://metronews.ca/voices/fashion-flirt/280336/triple-flipping-out-winnipegs-newest-fashion-destination-for-tweens/>.

## ENTREPRENEURSHIP AND SMALL BUSINESS

Thus far, we have discussed entrepreneurship and small business opportunities in a very general way. However, it is important to note that, despite many similarities, there are various interpretations of the terms *entrepreneur*.

### WHO ARE THE ENTREPRENEURS?

In its most general form, the term **entrepreneur** can be used to describe any individual who is an active business owner, whether it is a small, medium, or large sized business. However, some distinctions are often made within that broad category. Founders or nascent entrepreneurs are thought to be individuals who discover market needs and launch new firms to meet those needs. They provide an impetus for change, innovation, and progress, while trying to mitigate risk in pursuit of a new venture opportunity. However, we do not limit the term *entrepreneur* to only founders of business firms; we may also apply the term to second-generation operators of family-owned firms, franchisees, and owner-managers who

Explain the nature of entrepreneurship and how it is related to small business.

2

#### entrepreneur

a person who launches, builds, and/or operates a new or an existing business, to create value while assuming both the risk and the reward for his or her efforts

have bought out the founders of existing firms. Our definition, however, does exclude salaried managers of larger corporations, even those sometimes described as entrepreneurial because of their flair for innovation and willingness to accept risk.

To get an idea of the unlimited potential of entrepreneurial ventures, think of the achievements of entrepreneurs Chip Wilson of Lululemon, or Clive Beddoe of WestJet, who founded organizations that developed into industry leaders. It is easy to overestimate the importance of large corporations, because of their high visibility. Small businesses seem dwarfed by corporate giants such as Canadian Tire Corporation Limited (over 490 retail stores, 57,000 employees, and serving over 180 million customers a year), Bombardier Inc. (the world's only manufacturer of planes and trains with over 72,000 employees and revenues in excess of \$80 billion), and Tim Hortons (now part of Wendy's International Inc., with over 4,400 locations worldwide, generating over \$3 billion in sales). Yet almost all companies start as small businesses, and small business remains a vital component of our economy.

### 3 Define small business and identify the importance of small business.

#### small business

a business with growth potential that is small compared to large companies in an industry, is financed by only a few individuals, and has a small management team

## DEFINITION OF SMALL BUSINESS

### WHAT IS A SMALL BUSINESS?

In this book we use the following general criteria for defining a **small business**:

1. Compared with the biggest firms in the industry, the business is small; in most cases the number of employees in the business is usually fewer than 100.
2. The entrepreneur/owner(s) is actively involved in the management of and day-to-day business activities.
3. Financing of the business is provided by no more than a few individuals.
4. The business may begin with a single individual, but it has growth potential and may eventually grow to be a mid-sized or even a large company if the owner chooses to pursue growth.

Obviously, some small firms fail to meet *all* of the criteria. Nevertheless, the discussion of management concepts in this book is aimed primarily at the type of firm that fits the general pattern outlined by these criteria.

### WHY IS SMALL BUSINESS IMPORTANT?

As mentioned above, almost all businesses start small and even though few ever reach the size of the major corporations mentioned above, the number and growth rate of entrepreneurs launching new ventures is a key indicator of economic vitality within a country and an important driver of job creation and innovation. As a result, small businesses play an important role in the economy of Canada. According to Statistics Canada, a “small business” is a firm that has fewer than 100 employees; and in 2013, there were 1.08 million small businesses in Canada. Some additional key facts about small business in Canada are as follows:

- Over 98 percent of small businesses have fewer than 100 employees.
- Small businesses with fewer than 100 employees contribute between 25 and 41 percent to Canada's GDP.
- Small businesses employ approximately 7.7 million Canadians or 69.7 percent of the total labour force in the private sector.

- Between 2002 and 2012 over 100,000 jobs were created by small businesses, accounting for on average 78 percent of all new jobs created.
- Small business is responsible for \$87 billion in exports or about 23 percent of Canada's total exports.<sup>2</sup>

Refer to the data in “Entrepreneurial Experiences” below for greater insight into the Canadian small business environment.

## THE MOTIVATORS OF ENTREPRENEURSHIP

Individuals are pulled toward entrepreneurship by a number of powerful incentives (see Exhibit 1-2). These rewards may be grouped, for the sake of simplicity, into three basic categories: independence, profit, and personal satisfaction.

Identify rewards and drawbacks of entrepreneurial careers.

4

### THE REWARD OF INDEPENDENCE

The desire for independence is often cited as being the most powerful motivator for many budding small business owners. In fact, 57 percent of Canadians who want to start a business want greater independence and freedom and 29 percent want to be their own boss.<sup>3</sup>

Some entrepreneurs value independence because it allows them to achieve flexibility in their personal lives and work habits. An example would be the owner of a mountain biking tour firm located in Banff. The owner offers tours during the spring and summer season to earn money, then closes the business in September to follow his passion for competitive mountain biking by training and participating in the competitive circuit during the fall and winter. Obviously, most entrepreneurs don't carry their quest for flexibility to such lengths. But entrepreneurs in general appreciate the independence inherent in entrepreneurial careers. They can do things their own way, reap their own profits, and set their own schedules.

Of course, independence does not guarantee an easy life. Most entrepreneurs work very hard for long hours. But they do have the satisfaction of making their own decisions within the constraints imposed by economic and other environmental factors. Refer to “Entrepreneurial Experiences” for a snapshot of the entrepreneur's work life.

### THE REWARD OF PROFIT

The potential for profit is without a doubt an incentive for entrepreneurs considering a business venture. The financial return of any business must compensate its owner for investing his or her personal time (a salary equivalent) and personal savings (an interest and/or dividend equivalent) before any true profits are realized. Entrepreneurs expect a return that will not only compensate them for the time and money they invest but also reward them well for the risks and initiative they take in operating their own businesses. a record 45.3 percent of Canadians interested in starting their own business want to achieve a higher income and standard of living.<sup>4</sup> However, according to a Cox Business research study, only 8 percent of survey respondents stated that money was their main motivation for starting their own business.<sup>5</sup>

## ENTREPRENEURIAL EXPERIENCES



### Key Small Business Statistics

According to Industry Canada and the Small Business Branch “Key Small Business Statistics” as of December 2012, there were 1,107,540 employer businesses in Canada, of which 1,087,803 were small businesses. As shown in Table 1-1 approximately 57 percent of all business establishments in Canada are located in Ontario and Quebec with virtually all the rest divided between the western provinces (36 percent) and the Atlantic provinces

(7 percent). The Northwest Territories, Yukon, and Nunavut represent only 0.3 percent of Canada’s employer businesses.

Relative to the working age population (age 15 years and above) Alberta and Saskatchewan have more small- and medium-sized businesses or enterprises (SMEs), with ratios of 50.3 and 47.8 per 1,000 population respectively. Ontario and Quebec have the lowest ratios at 35.2 and 35.6 per 1,000 population.

**TABLE 1-1** Total Number of Employer Businesses, and Number of Small- and Medium-Sized Business Locations Relative to Provincial Population and Gross Domestic Product, December 2012

Provinces/ Territories	Employer Businesses				No. of Small- and Medium-Sized Business Locations per 1,000 Population (aged 15+ years)	GDP per Employer Business (\$ thousands)
	Total	Small (1–99)	Medium (100–499)	Large (500+)		
NEWFOUNDLAND AND LABRADOR	17,335	17,090	233	12	40.5	1,940
PRINCE EDWARD ISLAND	5,615	5,547	64	4	46.6	953
NOVA SCOTIA	29,686	29,179	468	39	38.0	1,247
NEW BRUNSWICK	24,992	24,582	386	24	40.3	1,288
QUEBEC	236,688	232,531	3,830	327	35.6	1,461
ONTARIO	389,116	381,001	7,437	678	35.2	1,682
MANITOBA	35,980	35,298	622	60	37.4	1,553
SASKATCHEWAN	38,749	38,264	457	28	47.8	1,929
ALBERTA	154,495	151,866	2,397	232	50.3	1,911
BRITISH COLUMBIA	171,557	169,178	2,218	161	45.0	1,269
YUKON	1,568	1,549	18	1	N/A	1,696
NORTHWEST TERRITORIES	1,294	1,263	29	2	N/A	3,702
NUNAVUT	465	455	10	0	N/A	4,224
CANADA TOTAL	1,107,540	1,087,803	18,169	1,568	39.0	1,591
PERCENTAGE	100.00	98.22	1.64	0.14		

Note: LFS working age population (aged 15 years and above) estimates are available for provinces only.

Sources: Statistics Canada, *Business Register, December 2012*; *National Income and Expenditure Accounts 2010*; and Labour Force Survey (LFS), 2012. [http://www.ic.gc.ca/eic/site/061.nsf/vwapj/KSBS-PSRPE\\_August-Aout2013\\_eng.pdf/\\$FILE/KSBS-PSRPE\\_August-Aout2013\\_eng.pdf](http://www.ic.gc.ca/eic/site/061.nsf/vwapj/KSBS-PSRPE_August-Aout2013_eng.pdf/$FILE/KSBS-PSRPE_August-Aout2013_eng.pdf)

Table 1-2 highlights the number of employer businesses by number of employees and by type of sector (goods or services). Based on the 2012 statistics, 55.1 percent of employer businesses have less than four employees, and 87.4 percent have less than 19 employees. The large majority of small businesses (78.2 percent) are in the service-producing sector, with 21.8 percent operating in the goods-producing sector.

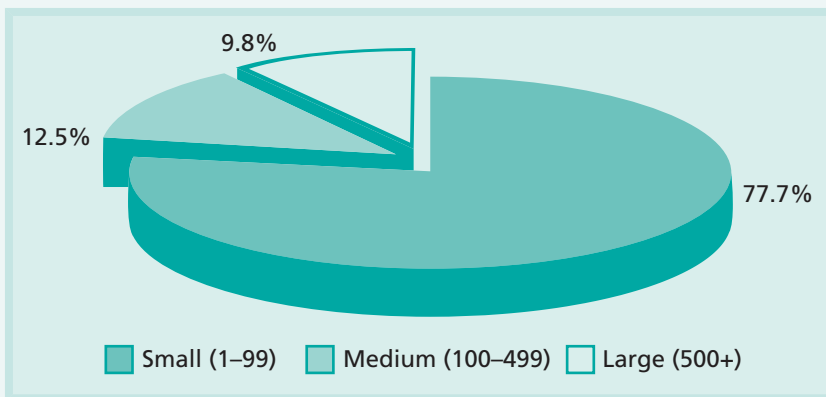
Exhibit 1-1 shows the important role that small business plays in terms of employment and job creation. Small business represents 98 percent of all firms in Canada, and as a result, plays a large role in net job creation. Seventy-seven percent of all private jobs from 2002 to 2012 were created by small businesses. In total, over 100,000 jobs each year on average were created by small businesses compared to the 12.5 percent and 9.8 percent of net new jobs created by medium-sized and large businesses respectively.

**TABLE 1-2** Number of Employer Businesses by Sector and Firm Size (Number of Employees), December 2012

Number of Employees	Cumulative Percent of Employer Businesses	No. of Business Locations		
		Total	Goods-Producing Sector <sup>1</sup>	Service-Producing Sector <sup>1</sup>
1-4	55.1	610,178	138,526	471,652
5-9	74.9	219,771	45,958	173,813
10-19	87.4	138,031	26,905	111,126
20-49	95.6	91,026	18,491	72,535
50-99	98.2	28,797	6,686	22,111
100-199	99.4	12,619	3,322	9,297
200-499	99.9	5,550	1,576	3,974
500+	100.0	1,568	437	1,131
Total		1,107,540	241,901	865,639

Note 1: By definition, the goods-producing sector consists of manufacturing; construction; and forestry, fishing, mining, quarrying, and oil and gas. The service-producing sector consists of wholesale and retail trade; accommodation and food services; professional, scientific and technical services; finance, insurance, real estate and leasing; health care and social assistance; business, building and other support services; information, culture and recreation; transportation and warehousing; and other services.

Source: Statistics Canada, *Business Register, December 2012*. Industry Canada, *Business Register, December 2009 National Income and Expenditure, Key Small Business Statistics, July 2010*; <http://www.ic.gc.ca/eic/site/sbrp-rppe.nsf/eng/rd02493.html>. Reproduced with the permission of the Minister of Public Works and Government Services, 2011.



**EXHIBIT 1-1**  
Percentage of Private Job Creation by Size of Business Establishment, 2002-2012

Sources: Statistics Canada, *Labour Force Survey (LFS), 2012*, and calculations by Industry Canada, available at: [http://www.ic.gc.ca/eic/site/061.nsf/vwapj/KSBS-PSRPE\\_August-Aout2013\\_eng.pdf/\\$FILE/KSBS-PSRPE\\_August-Aout2013\\_eng.pdf](http://www.ic.gc.ca/eic/site/061.nsf/vwapj/KSBS-PSRPE_August-Aout2013_eng.pdf/$FILE/KSBS-PSRPE_August-Aout2013_eng.pdf) (page 10).