CHAPTER 1: SMALL BUSINESS: ITS OPPORTUNITIES AND REWARDS

# **Chapter Summary**

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

# **Learning Objectives**

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

1. Understand the scope of small business in the United States.
2. Learn the difference between small businesses and high-growth ventures.
3. Discover the rewards entrepreneurs can achieve through their businesses
4. Be able to dispel the key myths about small businesses
5. Identify actions key to becoming a small business owner
6. Understand how small businesses are important to our economy and your community
7. Recognize the seven key strategies of the entrepreneur way.

# **Focus on Small Business:**

# **Paul Scheiter, Hedgehog Leatherworks**

Paul Scheiter’s entrepreneurship started with trying to find a solution to a problem he had: the plastic sheath of his expensive knife just wasn’t working well. His solution sparked his interest in entrepreneurship.

# **Focus on Small Business Discussion Questions**

1. **Do you think Paul was originally thinking about starting a business when he made his first sheath?**Probably not immediately, however the characteristics that lead him into entrepreneurship possibly caused him to realize the opportunity sooner than many others would
2. **What drove Paul to start a business?**Most likely he assumed that if he was unhappy with the knife sheath choices available, he was certain that others would be so, too.
3. **How important were contacts and connections to the growth of Paul’s business?**While Paul may have made it anyway, his contacts made the road easier to travel and with fewer mistakes. If he had to learn leatherwork by himself, he could have been easily discouraged and ultimately given up the idea. The courses he took and mentors he met along the ways helped open doors and eliminate problems. Probably the most telling factor that the help along the way was beneficial is that Paul now reciprocates and assists other potential entrepreneurs.
4. **Do you think Paul would credit his planned approach with the success of his business? What is your opinion?**  
   Again, the fact that he now teaches and mentors at Saint Louis University seems to indicate he found systematic learning about entrepreneurship paid off.

**Extended Chapter Outline**

Note: Key terms are in boldface.

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

* You can start a **small business** and there are ways to be a success. Paul Scheiter showed this:
  + Believing that you can do this or **self-efficacy**
  + Planning + Action = Success.
  + Help helps.
  + Do well. Do good.
* Entrepreneurial Small Business wants to help you reach your dream of becoming an **entrepreneur.**

**Skill Module 1.1: Small Business Online Scavenger Hunt**This module allows students to explore a number of entrepreneurial Websites. The answers (as of time of print) to the question are below.

1. www.bizjournals.com, www.usatoday.com/money/business, www.wsj.com
2. Business.usa.gov, www.sba.gov, www.entrepreneur.com, www.startupbusinessschool.com
3. www.nfib.org, www.sba.gov, www.inc.com
4. www.uspto.gov
5. www.sba.gov, www.entrepreneur.com, www.bizstats.com

* A vast majority of new firms follow the Feel 🡪 Check 🡪 Plan 🡪 Do process.
  + Feel: Having a feeling about starting a business or making a particular product or service.
  + Check: Make sure it has a good chance for success through a feasibility study or customer development process.
  + Plan: Moving the idea to a variety of different business models.
  + Continue refining and revising to become successful.
* According to the U.S. census there were 15.5 million entrepreneurs in the United States in 2015.
  + Entrepreneurs can be found in almost every **occupation.**
  + Some entrepreneur careers require college and even graduate degrees, while others have very basic entry requirements.
  + Your occupation as an entrepreneur depends on the types of **goods or services** you and your **firm** produce**.**
* True entrepreneurial businesses are characterized by **novelty**; small businesses are **imitative.**
  + In this text, anyone who owns a business is an entrepreneur.
    - A small business owner is an entrepreneur.
    - Someone who is **self-employed** is an entrepreneur.
    - There are several ways in which people become entrepreneurs.
      * **Founders** are people who start a new business.
      * **Buyers** purchase businesses.
      * Others may own a **franchise.**
      * Some may be **heirs** of a family business.
      * After entry, most entrepreneurs become owner-managers.

**Objective 2: Learn the differences between small businesses and high-growth ventures.**

* Firms may be identified as a **small and medium enterprise** (SME), **independent small businesses**, or **owner-managed firms**.
  + The number of firms outnumbers the number of entrepreneurs because many entrepreneurs are **serial entrepreneurs.**
* Entrepreneurial companies follow two main tracks:
  + Small businesses start out small and remain small.
  + Founder wants to keep the firm a controllable size.
* High-growth ventures start out small and intend to grow rapidly.
  + Often a team of founders is needed to manage this growth.
  + High-growth ventures are often noted for their **innovativeness.**
* Small businesses and high-growth venture differ fundamentally in a number of other ways (as illustrated by Table 1-2 in text).
* The **overall growth strategy** helps determine the type of firm.
* Business owners need to decide the overall growth strategy of their firm, that is, the kind of business they would like to have from the perspective of how fast and to what level they would like to grow the firm. There are four generic growth strategies:
  + **Lifestyle or part-time firms** are those with sales less than $25,000 per year that are a supplemental or subsistence income for the owner.
  + **Traditional small businesses** have sales between $25,000 and $100,000 and growth levels off once the business achieves a income that provides a living for the owner and his family.
  + **High-performing small businesses** have sales in the $100,000 to 1,000,000 range and grow between 5 – 15 % per year.
  + **High-growth ventures** aim to grow over 25% per year and have sales of more than $1,000,000.
  + **Unicorns** are at the tip of the group with valuation of one billion dollars or more.
* *Entrepreneurial Small Business* focuses on the 95% of the businesses outside the high-growth sector, the **Main Street businesses.**

**Objective 3: Discover the rewards entrepreneurs can achieve through their businesses.**

* People become entrepreneurs for a number of different reasons.
  + Universally, entrepreneurs are motivated by three goals:
    - **Growth rewards** come from facing problems and challenges and beating them or learning from them.
    - **Income rewards** simply mean matching or slightly bettering current income. This goal is shared by most entrepreneurs. Only one in four seek high income.
    - **Flexibility rewards** mean that the entrepreneur can arrange his/her life around whatever needs they may face – family obligations, religious goals, etc. This goal is rapidly becoming more important.
  + Entrepreneurs are more likely to value building great wealth and creating products
  + Entrepreneurs are LESS likely than people in general to be motivated by respect or admiration of others, power over others or continuing a family tradition.

**Objective 4: Be able to dispel the key myths about small businesses.**

* In 2010, 56% of the youth in the United States were thinking about starting their own business, but only about 19% of those were doing anything by 2014.
* Most are scared off by the most common myths about small business:
  + There’s not enough financing.
  + You can’t start a business in a recession.
  + You need to make something if you are going to make a profit.
  + If you fail, you can’t try again.
  + Students don’t have the skills to start a business.
  + 90% of all new businesses fail within two years.
* Finance: This ranks 8 pm a list of the 10 biggest concerns for entrepreneurs
  + The SBA reports that bank financing is up from its low in 2009.
  + New sources of financing like **crowdfunding** are available.
  + **Bootstrapping** techniques are methods to minimize your cost of doing business.
  + Recession
    - The SBA reports that bank financing is up from its low in 2009.
    - New sources of financing like **crowdfunding** are available.
    - **Bootstrapping** techniques are methods to minimize your cost of doing business.
    - Businesses that start in a recession must start by doing more with less.
      * This makes them better able to handle future downturns.
      * A *Business Week* report stated that 70% of the top 10 Fortune 500 companies were started in recessions.
* To make a profit, you must make something:
  + Amid the 2011 – 2015 recession, 9 of the 10 most profitable small businesses were services.

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

* If you fail, you can never try again:

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

* + If you close a business and pay off your debts, you did not fail.
  + If you learn to better the next time, you’ve paid for another piece of your education.
  + A large number of today’s successful entrepreneurs have had one or more failures.
* Students (or any other group) don’t have the skills to start a business.
  + Students already know what other students want/need which can lead to a retail business.
  + Students have skills that they may not have considered using – creating Websites or programming.
  + Not only students but “mompreneurs” or “second career" entrepreneurs bring certain skill set to a small business.
* 90% of all new businesses fail within two years.
  + 69% are still going after two years, 515 at 5 years, 345 at ten years and 25% at 15 years.
  + Closing a business is not a business failure. Only about one out of three was financially unsuccessful.
* Myths like these hold back potential entrepreneurs; don’t let the doomsayers win.
  + Check out the facts at reputable sites like the U.S. **Small Business Administration.**

**Objective 5: Identify actions key to becoming a small business owner**

* In order to start a business, the four elements of the BRIE model need to come together.
  + Boundary:
    - Something that separates it from the occasional buying and selling that we all do.
    - This can be a government registration, a dedicated phone line or a specific location in the home dedicated to the business.
    - This boundary gives a place to locate and preserve the business resources.
  + Resources:
    - These can be physical assets such as equipment necessary to make/sell your products or inventory that you intend to sell.
    - Your time devoted to the business is another resource.
    - Information can also be a resource.
  + Intention:
    - This is simply the desire to start a business.
    - About 50% of all Americans think about starting a business.
  + Exchange:
    - This is the trade of resources for money (or barter).
    - It includes purchases you make to set up and run your business.
    - In includes the selling of your products or services

Objective 6: Understand how small business is important to our economy and your community

**Skill Module 1-2: BRIE Self-Assessment**

This exercise provides a checklist to assess how ready an individual is to start his or her own business. The minimum is to have done at least one activity in each category; the more activities done in each category increases the chance of survival.

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

* While small business is important to the entrepreneur, it is also important to the community at large.
  + Small businesses create jobs:
    - Since 1994, at least 63% of the new jobs created – and by some statistics nearly all the net new jobs in America – are created by small businesses.
    - Small businesses employ more than half of all Americans.
    - Small businesses are likely to provide jobs to part-timers, those with unusual schedule needs, people with little or no experience and those with uneven job histories.
  + New innovations come from small businesses:
    - **Creative destruction** is the process whereby new business, products and services tend to negatively impact existing businesses, product and services.
    - Small businesses have the freedom and flexibility to pursue ideas that larger firms may reject or what they think is important.
    - Small businesses generate 16 times more patents and are twice as likely to be among the top one percent of all patents cited by others.
  + Small businesses create new opportunities:
    - Owners have not only flexibility, but the chance to improve their economic well being.
    - People with unusual schedules and people with problems that might limit their ability to be hired (e.g. immigrants, handicapped) can achieve success by entrepreneurship.
    - Small businesses offer opportunity to the community in a number of ways.
      * New products and services.
      * Provides business for other businesses from the products or service the firm will need to operate.
      * Provides tax dollars both from the firm’s income and from that of its employees.

**Teaching tool:** Select a number of products that were or are relatively new to the market and known to students. Examples might include Cabbage Patch Kids (or the more modern Bratz dolls), a recently released children’s movie, iPads, electronic games (e.g., Nintendo), cellular phones, etc. Divide the students into groups and ask them to generate lists of product variations and/or peripheral products or services that have evolved from this invention. Have them come up with several new ideas – things that haven’t been done, but could be done.

**Small Business Insights: Mother Teressa and Buffalo Hot Wings**

Teressa and Frank Bellisimo, the owners of the Anchor Bar in Buffalo, NY are credited with the invention of Buffalo Hot Wings. This eventually evolved into Hot Wing franchises and a multiple of varieties of hot wings. Wing cookers, recipe books and sauces were natural spin-offs. Other business such s Dominos and Pizza Hut now sell Buffalo Hot Wings.

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

* Entrepreneurship is even more important outside the US where the self-employment or new business start-ups can be 50- 100% higher than the US.
  + The level of entrepreneurship varies based on the type of economy a country has.
    - In **factor driven economies**, where most industry is farming and raw material extraction, entrepreneurship is essential to break the cycle of low-wage jobs and entrepreneurship is at the highest level.
    - In **efficiency driven economies**, where industrialization is in early stages, entrepreneurship is necessary to build the middle class.
    - In **innovation-driven economies**, where manufacturing is high value and services are a large sector of the economy, entrepreneurship tends to be at the lowest levels.
  + There are two types of entrepreneurship as well:
    - When an entrepreneur tries to better themselves financial or introduce a new product into the world it is **opportunity-driven entrepreneurship**.
    - When someone becomes an entrepreneur because there are no other opportunities for work, this is called **necessity-based entrepreneurship**.
  + The other aspect of global entrepreneurship has to do with exporting.
    - Previously, entrepreneurs tended to be local in scope and rarely sold in other countries.
    - Today small business accounts for 33.6% of all exports and represent 97.7% of all exporting firms, much based on personal or family ties.
    - **E-commerce** has had a large impact on this, allowing firms to establish a global presence immediate, a phenomena called **virtual instant global entrepreneurship (VIGE).**
  + **CSI entrepreneurship**
    - The three **forms of entrepreneurship** or corporate, independent and social, differ is which aspects they focus on. The aspects are:
      * + Forming new entities is known as **creation.**
        + **Customer-focus** is being in tune with your market.
        + Doing more with less is key to **efficiency.**
        + **Innovation** is a new thing of a new way of doing things.
    - Small business, or **independent entrepreneurship**, focuses on all four elements.
    - **Corporate entrepreneurship** is concerned with customer and innovation.
    - Charities and civic organizations practice s**ocial entrepreneurship**, and are concerned with all but innovation. These include **sustainable** and **green** businesses.
    - Wealth or profit is not one of the elements as other gains such as **mindshare**, keeping customers happy or keeping the business going may be more critical than profit.
    - Achievement of an outcome is essential but often balanced against on ot more **focuses of entrepreneurship**
    - As entrepreneurial skill is always in demand, it is not unlikely to see entrepreneurs move from sector to sector.

**Objective 7: Recognize seven key strategies of the entrepreneurial way**

* + Entrepreneurs’ stories often reflect these strategies:
    - **Perseverance**: If you don’t succeed the first time, try again.
    - Scale back: If you don’t have enough resources for your big dream, find a smaller version that will get you started.
    - Bird in the hand: Start with the resources you already have. This is one of the strategies in **effectuation.**
    - Pivot: Start anyway you can and then look for better opportunities as you go. This is also known as the **corridor principle.**
    - Take it on the road: Your best market may be elsewhere.
    - Ask for help: You can harness the wisdom of many with techniques like **crowdsourcing**.
    - Plan to earn: Figure out the best idea for you and plan to make it happen.

## Key Terms

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

**Buyers:**  people who purchase an existing business.

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

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

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

**Creation:** the entrepreneurial focus which looks at the making of new entities.

**Crowdfunding:** funding a business online through the collective involvement of others to provide donations, a loan or investment.

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

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

**Customer-focus:** the entrepreneurial focus which refers to being in tune with one’s market.

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

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

**Efficiency:** the entrepreneurial focus which refers to doing the most work with the fewest resources.

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

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

**Factor-driven economy**: A nation where the major forces for jobs, revenues, and taxes come from farming or extractive industries like forestry, mining, or oil production.

**Firm:** an organization that sells or trades with others.

**Flexibility rewards:**  refer to the ability of a business owner to structure life in the way that suits their needs best.

**Focuses of entrepreneurship:** the key directions the organization intends to pursue.

**Forms of entrepreneurship:** the settings in which the entrepreneurial effort takes place.

**Founders:**  people who create or start new businesses.

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

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

**Green entrepreneurship:** Staring or running a firm in a manner which saves or improves the environment. (See sustainable entrepreneurship.)

**Growth rewards:**  what people get from facing and beating challenges or learning.

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

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

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

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

**Income rewards:**  the money made by owning your own business.

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

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

**Innovation:** the entrepreneurial focus which looks at a new thing of a new way of doing things.

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

**Innovativeness:** refers to how important a role new ideas products, services, processes or markets play in an organization.

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

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

**Mindshare:** the degree of attention your target market pays to your idea or organization.

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

**Novelty:**  characterized by being different or new.

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

**Opportunity-driven entrepreneurship:**  Creating a firm to improve one’s income or provide a product or service.

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

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

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

**Self-efficacy:** a person’s belief in his or her ability to achieve a goal.

**Self-employed:**  working for yourself.

**Serial entrepreneurs:** people who open multiple businesses throughout their career.

**Small and medium enterprise:**  the international term for small businesses.

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

**Small Business Administration:** a part of the United States government which provides support and advocacy for small businesses.

**Social entrepreneurship:** the form of entrepreneurship involving the creation of self-sustaining charitable and civic organizations, or for-profit organist ions which invest significant profits in charitable activities.

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

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

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

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

# **Discussion Questions** NOTE: some questions allow for a number of different answers. Below are some suggestions

1. **Describe the population of small businesses in America. How many firms are there and how many new firms are started each year?**   
   In 2010, there were about 15.5entrepreneurs. There were 28.2 million small businesses in the US in 2010.
2. **Why do you think that 56% of the 15-17 years olds say they would *like* to start a small business, but only about 19% who expresses an interest actually do anything**   
   The major reasons given in the text include: there is not enough financing to start a business, you need to make something (or something high-tech) in order to make money, or another of the myths. However, students might also give any of the following are popular reasons: fear of losing everything, not sure what kind of business to start, fear there is not enough money to start or sustain a business, lack of family support, lack of time to get started, not sure they know everything they need to run the business, lack of knowledge about the product or the market, lack of locations to get started, fear of retribution if caught moonlighting, fear of giving up a consistent income to start their own business, fear of going solo, local or federal regulations.
3. **What are the differences between small businesses and high-growth ventures?**  
   The table in the chapter comparing small businesses and high-growth ventures gives the possible answers.

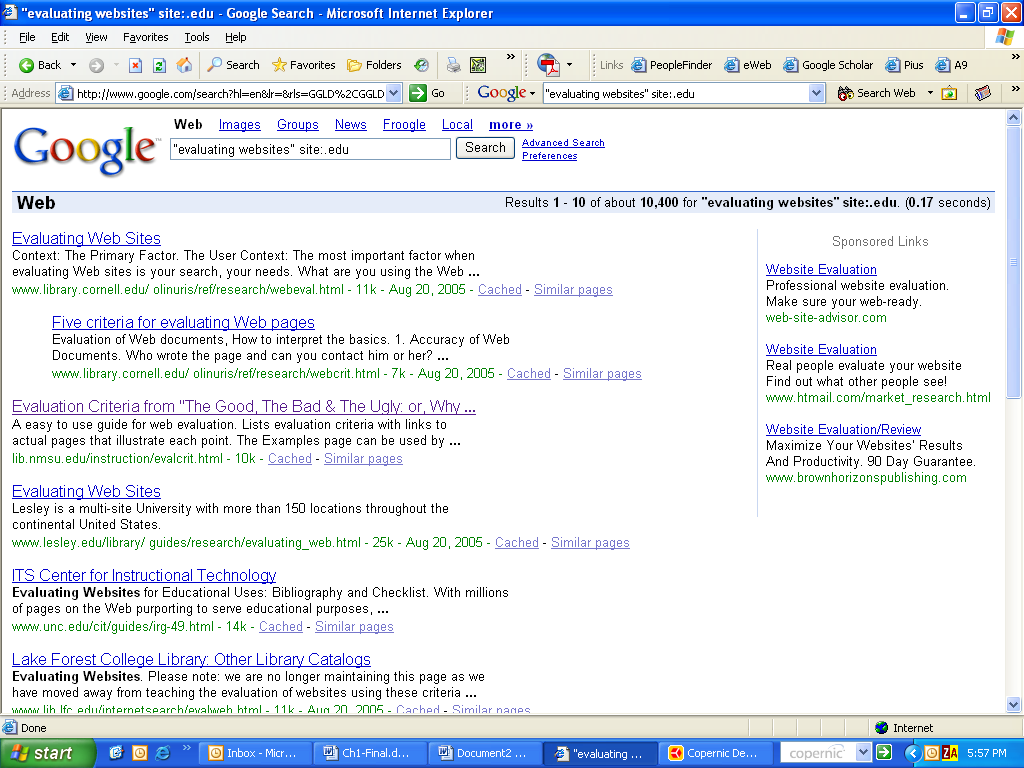
|  |  |  |
| --- | --- | --- |
| Table 1-1  Differences Between Small Businesses & High-Growth Ventures | | |
|  | Small Businesses | High Growth Ventures |
| *Preferred funding source* | Owner’s own money | Other people’s money |
| *When the firm’s in trouble* | Cut costs | Sell more |
| *What’s more important* | Sales | Marketing |
| *Personal Control Preference* | Retain autonomy | Involve key others |
| *Focus* | Efficiency | Effectiveness |
| *Metastrategy* | Imitation | Novelty |
| *External Control Preference* | Control firm | Control market |
| *Grow* | When necessary | When possible |
| *Human Resources* | Personalize | Professionalize |
| *Acceptance* | Personal Validation | External Legitimacy |
| *What Limits Growth* | Loss of Control | Market Response |
| *Delegation Orientation* | Delegation is difficult | Delegation is essential |

1. **What kind of reward might be the one most often mentioned by independent entrepreneurs? Corporate entrepreneurs? Social entrepreneurs?**Mostrewards can be argued for each category, but the most logical follow:  
   Independent: All could be factors, but flexibility is more likely to show up in this category than in the others.  
   Corporate: growth, product, recognition, admiration  
   Social: growth, recognition, admiration.
2. **Describe the BRIE model and how it applies to creating a firm.**BRIE stands for Boundary/Resources/Intention/Exchange. Boundary is something (even a belief) that makes the business something separate from the rest of the world – it sets it off as a business. Resources can be time, money, knowledge or other assets that are committed to the business. Intention is the belief or expectation that they are going to start/own/run a business. Exchange is trading your goods or services for something of value (money, other goods or services via barter) and reflects the business *doing* business.  
     
   BRIE describes the 4 elements you need to have in order to start a business. To get a business going and to keep it going, you need to have all four BRIE elements in the business.
3. **Why are small businesses better at creating innovations than large businesses?**   
   Small businesses have less at stake than large businesses, so if they create something that will cannibalize sales of existing products, it can be a bad thing for another part of the organization, and might not increase the company’s profits. Small businesses can go off and work in areas without approval of others, letting them get into areas that seem less promising or “too far out.” Small businesses lack levels of approval, so new ideas can go into production or sales without having a variety of higher-ups approve of it. Often small businesses create ideas from former big business employees who offered it to their former employer, but were rejected (like Steve Wozniak, the personal computer, and his employer, HP). Small businesses are also more efficient in the R&D expenditures, getting more bang for the buck.
4. **Why is the presence of small businesses important for large businesses?**Small businesses provide jobs to half the population, providing them money to buy things big businesses provide. Small businesses provide critical services to big business (as suppliers, subcontractors, etc.). Small businesses can outperform large businesses in some ways, and big businesses contract with small businesses to provide these superior services. In these ways, big businesses need a large population of small businesses to support them.
5. **Take 10 businesses that operate in your community and categorize them in the appropriate type of overall growth strategy. Why do you put them there?**

Answers will vary. Instructor should find businesses that fall into each category in case students have trouble identifying some of the more difficult sectors.

1. **Many people think of the United States as one of the most entrepreneurial countries. Are there other countries with higher levels of entrepreneurship? Name two and explain why their levels of entrepreneurships might be higher than that of the United States.**Those selecting a country with a factor-driven economy will cite the need to break out of very low wage jobs. In an efficiency-driven economy, the growth of a middle class is important.
2. **How does the story of Sir Paul McCartney reflect the key ethical idea of this chapter, “Do well. Do good.”**Sir Paul McCartney has indeed done well. Royalties from his music has places him among the wealthiest people. On the other hand, he is also well-known for his philanthropy.

# **Experiential Exercises**

1. **Go through the list of reasons people give for going into self-employment, and identify which of the reasons seem to fit. Be ready to explain why you identify with that reason.**This exercise is very straightforward, and works well whether done as a class-wide activity or breaking the students into smaller groups to discuss their opinions, with final reports to the class as a whole. When you consider how to break up groups, there are some observations you might be able to use.  
     
   One observation is that younger students place a greater emphasis on income rewards, sometimes to the near exclusion of other rewards. Over the past few years, however, more young adults have mentioned flexibility (often in terms of having time for fun) than in the past. Another likely occurrence is that folks with family responsibilities will see flexibility and income rewards. Growth rewards are more typical among adult learners.  
     
   Note that in a class of 30-40 people, you are likely to find all rewards operating. The key in fitting it to the idea in the text is to see which rewards get more votes. Pretty consistently you will find the universal rewards (esp. income and flexibility) will come up again and again.
2. **Think about the list of reasons people give for going into self-employment. If you can, interview local entrepreneurs about their reasons and see how your real-life examples fit with the national survey results.**Instructors get divided over whether it is okay to let students interview their parents for this. It depends on your faith in the student actually doing the interview, and your faith that their relationship is a good one. When everything works out right, students discover a whole different side of their parents, since these issues are not typical discussions around the dinner table. Certainly having a student interview someone outside the family should get them some answers. Some students don’t know who to ask. Have them think about the small businesses they deal with during the week – the laundry, diner, small hardware store, doctor, dentist, game store, etc. They can pick someone to talk to they will encounter during their regular week’s activities. It is a good idea to tell them to go off campus. Otherwise the entrepreneur who owns the newsstand can quickly get swamped.  
     
   One interesting challenge for the brave of heart is to get people thinking about the locally famous entrepreneurs (e.g. the auto dealer in his or her own ads, the local philanthropic millionaire, and the real estate mogul) and see if someone is willing to seek an interview from those people. It is often amazing to the students how accessible many of these people are. By the way, if someone has the nerve, ask the class as a whole if they know the individual, or know someone who does – the “six degrees of freedom” idea. It might be possible to get the student a personal introduction to the famous entrepreneur.  
     
   Sometimes students are unsure how to ask the question. A simple way is to ask “Why did you decide to become an entrepreneur?” or “Why did you decide to go into business for yourself?” Then the student can listen to the story and see which of the rewards got mentioned. It is fine after the story is told, to share the list with the entrepreneur and see which ones he or she picks out.   
     
   Before you send the students out, decide (and tell them) what information you want from them when they report back to the class – which reward, the exact form of the reward the entrepreneur mentions/benefits from, the size/strength of the reward, the trade-offs among rewards, whether the rewards have changed as they got older or their business grew.
3. **Check your state’s and locality’s websites for information on programs supporting economic development through small business creation and job creation. You can get a start at USA.gov’s State and Territory Business Resource at business.usa.gov/micro-site/state-resource. Pick a state and make a list of programs that might be worth looking into as you develop your business idea.**Among organizations worth noting are the local (or closest) branches of the Small Business Development Center, the SBA office, the closest SCORE chapter (although they give advice via email now), the secretary of state’s office (and their local branch or satellite), the state department of economic development (and their closest office). If you are in a rural area, the USDA Extension Service or the state extension office might offer some of the same support services as the SDBC’s in more urbanized areas. If the school or campus offers help, make sure the students are aware of it. If you have students interested in exporting, check out the Commerce Department’s export.gov site.   
     
   As students begin to veer away from government sites, it probably is a good idea to make sure they know how to evaluate websites as to the quality of their material. In small business, there are a lot of websites that say they offer expertise, but the quality can vary dramatically. Your school’s librarian probably has a handout you can use, or you can use the Google below to find some good resources:  
     
   
4. **Look at the local newspaper’s online website, or the bizjournals.com website for the paper in your region. Use the terms “entrepreneur” and “small business owner” to find articles talking about local entrepreneurs. From this compile a list of prospective “local small business heroes and heroines” to serve a role models and prospectors for local sources of help.**Done electronically, this can be a fast and easy effort. To narrow it down, you can also specify industries (e.g. restaurant, automotive, etc.) or terms like “founder,” “owner”, “started”. Some papers and organizations (like chambers of commerce) have their own lists of major local business people, and can be a source if the online searches are not possible.  
     
   Without using the online services, it is possible to build a list from any class, asking the students for their nominees for best-known local business owners or entrepreneurs. They can also think about local people who went elsewhere and made their fortunes. Another approach is to have students review the local newspaper (or some other source) for a week and list all the entrepreneurs they find.  
     
   The point of this exercise is to get students used to the idea that entrepreneurs (and in particular, successful entrepreneurs) are all around them, a major part of any community. Famous ones are fine to know about, and their stories may be especially inspiring, but just knowing the 25 entrepreneurs closest to the classroom can be an eye-opening exercise.
5. **For students in your class thinking about (or in the process of) starting their own business, find out which items on the BRIE checklist they have completed. Ask them which items they expect they will complete of get help on by taking this class.**Answers will vary.

# **CRITICAL THINKING EXERCISES**

#### Learning Objective 1

1. *Andy and Brian were talking over coffee one morning. “Brian,” Andy said, “You know I’ve been repairing clocks as a hobby for some time. Since the nearest clock shop is in Smithton and that’s about 60 miles away, I’ve begun doing it for friends and neighbors. I’m thinking of quitting this job and opening a clock repair shop here.”  
     
   “Oh, Andy,” Brian replied, “Are you really sure you want to do that? Hardly anybody starts a business these days – no one even much thinks about doing that anymore. The day of somebody just deciding to open a business and doing it is long gone.   
     
   “Even restaurants are no longer small businesses; you gotta buy a franchise from some big corporation these days. Besides, you gotta do something different than anybody else does; you’ve got to come up with an idea no one else has thought of before.  
     
   Be a better friend to Andy than Brian was. Correct the errors Brian made and offer Andy some advice that will be beneficial.*

Answer

First of all, small businesses aren’t a thing of the past. There are 15.5 million entrepreneurs in the U.S The two-year survival rate is 69%. Additionally, buying a franchise IS one way to become a small business owner, along with starting from scratch or buying an existing business.   
  
While there are number of pieces of helpful advice, one thing the text points out is that businesses who get help – taking classes, attending small business seminars, etc. – greatly increase their survival odds.

*Learning Objective 2*

1. *Small Business or High Growth Venture? Read the brief descriptions below and decide from which of the two types of start-up businesses these quotes are likely to come.*
   1. *“Well, once I saved $20,000, I figured I had enough to get started.”*
   2. *“To get this product out the door, we need to let people know how much they need it. We need to place ads in magazines and maybe offer some special discounts or free offers to get the word out.”*
   3. *“We saw an opportunity to do the same thing in Idaho and jumped right on it!”*
   4. *“I had a good idea, but didn’t know much about selling it, so I hired Fred. Then I needed a really sharp financial person and Carolyn came on board. Soon Sandy in human resources and Ken in manufacturing joined us, and, wow, did they have some good ideas.”*
   5. *“I knew this was a good idea, so I tried it and it worked. There’s nothing like knowing that you were right all along.”*
   6. *“There’d been pizza restaurants for years, but I figured if I started a pizza restaurant that delivered by the slice – you know, so Mom could have mushrooms and the kids pepperoni and Dad could get the works – then I could be successful.”*
   7. *“We were beginning to have trouble making payroll, so I called in my salespeople and had them double the calls they were making.”*
   8. *“I figure it’s my business, it’s my livelihood that’s at stake, so I call the shots.”*
   9. *“I knew we made it when we won the “Entrepreneur of the Year” award.”*

### Answer

Using Table 1-1 from your text, the following are the most likely choices with the probable category in parentheses.

* 1. Small Business (preferred funding source)
  2. High-Growth Venture (what’s most important)
  3. High-Growth Venture (grow)
  4. High-Growth Venture (personal control or delegation)
  5. Small Business (acceptance)
  6. Small Business (metastrategy)
  7. High-Growth Venture (when the firm’s in trouble)
  8. Small Business (delegation or personal control
  9. High-Growth Venture (acceptance)

1. *Complete the following table*:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Growth rates | Sales | % of small businesses |
| High-growth Ventures |  |  |  |
| High-Performing Small Businesses |  |  |  |
| Traditional Small Businesses |  |  |  |
| Lifestyle/Part-time Businesses |  |  |  |

Answer

|  |  |  |  |
| --- | --- | --- | --- |
|  | Growth rates | Sales | % of small businesses |
| High-growth Ventures | 25% + per year | $1,000,000+ | 5% |
| High-Performing Small Businesses | 5 – 15% per year | $100,000 – 1,000,000 | 20% |
| Traditional Small Businesses | No growth after sales meet owner’s need | $25,000 - 100,000 | 22% |
| Lifestyle/Part-time Businesses | No growth after a low level | < $25,000 | 53% |

*Learning Objective 3*

1. *Andy and Brian continued their discussion about Andy’s possible clock repair business. “You know, it’s not like it’s a business your Dad started and you feel like you HAVE to continue,” Brian spoke up. “Is it because you want to be the boss and tell people what to do and stuff? Or are you trying to be a big shot, ‘Mr. Business Owner?’ What makes you want to leave a good job like this and do something like that?”  
     
   Andy replied, “No, Brian, it’s not like that at all. Sure, I’d like to have a decent income – one where I didn’t have to be worried that I’d get laid off all the time – and maybe it’d turn out to be even better than that and I could afford a nice house and car. What I’d really like though is to be able to learn more about clocks – maybe pick up watches, too. I’d kind of like to see if I’ve got what it takes to run my own business as well. Can I keep books and advertise and stuff like that? Also, since the kids are getting older, do you know how many of Carl’s Little League games I’ve had to miss or how many of Denise’s band concerts?”  
     
   Andy and Brian touched on many of the rewards new entrepreneurs seek through small businesses – and some of the ones that entrepreneurs generally do not seek. List the ones you see.*

### Answer

*Usual Rewards*:  
Income (Sure, I’d like to have a decent income)  
Wealth (Maybe it’d turn out to be even better than that)  
Growth (I’d kind of like to see if I’ve got what it takes)  
Flexibility (Do you know how many of Carl’s Little League games I’ve had to miss)

*Rewards Usually NOT mentioned by entrepreneurs:*Family (It’s not like it’s a business your Dad started)  
Power (You want to be the boss)  
Recognition (Are you trying to be a big shot)

Learning Objective 4

1. *Brian continued, “Where the heck do you think you are going to get the money? It’ll cost a bundle and there’s just no money out there to borrow for anything that risky. And besides, you aren’t really doing anything. I mean your aren’t making anything to sell or anything. You tried that pizza business a few years ago and really blew it; what makes you think that you could try again? Gosh, the economy is really rotten, too. Are you nuts?”  
     
   Brian touched on four of the most common myths about new businesses. Give Andy the information he needs to rebut these.*

### Answer

First of all, funding is up from its low in 2009. Andy may have personal savings; he may be able to convince some of this friends (but probably not Brian) or family to loan him some money. There are venture capitalist, “angels,” and bank loans and crowdfunding available. Andy could be thinking of bootstrapping like downsizing his house or car, taking a second mortgage on his home or using personal credit cards to help finance his venture as well.  
  
Services are the single largest business sector in the United States and 9 out of 10 of the most profitable start-ups are services. 7 of the top 10 Fortune 500 companies started in a recession – a good time to learn how to operate lean, a valuable lesson for future lean times. A failed business provides a lot of learning useful for the next try.

*Learning Objective 5*

1. *Brian decided that he was fighting a losing battle. “So tell me what you’ve done so far.”  
     
   Andy responded, “I’ve got a pretty good set of supplies and tools already as the wife and kids give me them for Christmas and birthdays. I’ve recently purchased a cabinet with all sorts of drawers and dividers to organize myself and a workbench and work stool that ought to help me do it better. There’s an empty store front on Main that has pretty reasonable rent.  
     
   ”I also signed up for a small business class at the local university. We haven’t covered much yet, but I’m already thinking about business plans and marketing plans and such. This course will help me do this and there’s a local SCORE chapter with all these retired business people who will help me if I run into problems.”   
     
   Use the BRIE Model to critique what Andy has done so far and make suggestions for what he should do.*

### Answer

Andy’s strong point is *resources* where he has done, or is in the process of doing probably everything he needs to do in this area. In *intentions*, he has pretty much completed a couple (thinking about the business, developing his product/service) and is in the beginning stages of most of the rest.   
  
On the other hand, the only thing he’s done in the *boundary* category is identifying a place for his business. He should probably do all of the other items in that list (Website/domain name may be arguable depending on his final business plan). If he has done anything in the *exchange* category, he hasn’t mentioned it to Brian. (Depending on how you consider it, he may have made a little progress in this category. He may have earned some money while this was a hobby and the credit established with his small “hobby” purchases might be usable for larger future purchases.)

##### Learning Objective 6

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

Answer

Jobs: unless this is a one-man operation, jobs have been provided even if only for family members. Jobs also mean income taxes (in most states), possibly reduction in welfare roles, flexible work for those otherwise unemployable and possibly other benefits  
  
Innovations: while it may be imitative rather than novel, most small businesses provide SOMETHING that wasn’t there before. For example, a restaurant could offer unique cuisine, a unique dining experience, certain services that weren’t previously available (carry out or home delivery), a cheaper (or more expensive) alternative, or simply be closer and more convenient than those already there.   
  
New Opportunities: Other than the new opportunity for its customers, business offers opportunities for other businesses – whether it’s another new business or an existing business. The restaurant example given above requires sources for all its food products, its dishes, its appliances, its uniforms, its menus, etc. In addition, it may use laundry services for the uniforms and tablecloths, pesticide service in order to keep its rating, insurance, security and a number of other services. Someone will likely help them design their advertising and they will need a place to display these ads whether it is television, a newspaper or a billboard, etc. The building may need remodeling before opening and is likely to have the occasional backed up drain or other maintenance and upkeep requirements. (This is by far not an exhaustive list.)

1. *Let’s visit Raymond’s Coffee Shop and eavesdrop on some conversations. Can you tell which focus of entrepreneurship each patron is talking about?  
     
   “Well, I set my own personal best,” said Rob of Rob’s Auto Shop. “I was able to repair eight engines this week instead on my usual six.”  
     
   “Good work,” commented Collin, his accountant. “What I ought to do, though, is find you a new way of keeping your books. That way I wouldn’t have such a mess to go through at tax time. Shoot, I should give this system to all of my clients and work only part time.”  
     
   Banker Sean spoke up, “You know: that’s not a half bad idea. When I showed my clients how to investigate stocks funds online, they were really appreciative. Not only did they save a lot of time, but they also made a lot of money.”  
     
   “And Sean made a lot of money himself,” laughed Jennifer, his wife. “So much that I’m thinking of opening another store. I’ve got the dress shop, so now I’m thinking about shoes and accessories. Or maybe children’s clothing? What do you think we need the most here in town?”*

Answer

Rob – Efficiency  
Collin –Innovation  
Sean – Customer  
Jennifer – Creation

##### Learning Objective 7

1. *Back at Ray’s Coffee Shop the conversations continued:*

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

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

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

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

*As Ray refilled their coffee cups, he commented, “I couldn’t help hearing your stories and it got me reflecting on mine. I started a taco restaurant years ago, but when they changed the highway, my business died. Then I tried a steak house downtown. It was successful for a while, but when the economy isn’t so good people don’t want to spend so much. After that failed, I decided what this town needed was good food at reasonable prices and the coffee shop was born.”  
  
Can you tell the entrepreneurial ways these entrepreneurs used?*

Answer

Rob –Pivot and plan to earn  
Collin –Take it on the road and bird in hand   
Sean – Scale back (and, probably, pivot and maybe, perseverance)  
Jennifer – Ask for help

Raymond – Perseverance (and maybe pivot)

# **Mini-Case:**

# **Doug Brown**

Doug Brown has had the opportunity to see entrepreneurship from a number of perspectives.

**Answers**

1. **Which of Doug's work roles fit corporate, social, and independent entrepreneurship?**While the details are not all there, his work with Enterprise seems to fit corporate.  
   Habitat for Neighborhood is definitely social. His consulting, while not purely social, has a social element in that he donates his fees.  
   His investing in real estate and a chain of car washes do not offer evidence to pin them definitively to one of the roles, but it would be hard to consider them social. Students may argue for either independent or corporate depending on how they interpret the end results.  
   While he was not the founder, his days with Executive Leasing sounds like ti would fit well in independent.
2. **What kind of rewards do you imagine Doug pursuing in each of his different entrepreneurial roles?**
3. **How do you imagine the Habitat for Neighborhood Business taps the three focuses of a social enterprise**: **creation, customer-focus, and efficiency?**The customer-focus is evident in the helping to revitalize the neighborhood with home-grown businesses, mentoring, raising funds to aid clients and the neighborhood and other similar things.  
     
   Creation is evidenced by business creation.  
     
   Efficiency is implied in the non-profit status of the organization. Non-profits typically have to do more with less.