Managing Small Business Start-Ups

Chapter 6



Starting a New Business

 Since the 1970, the number of businesses in the U.S. economy has been growing faster than the labor force

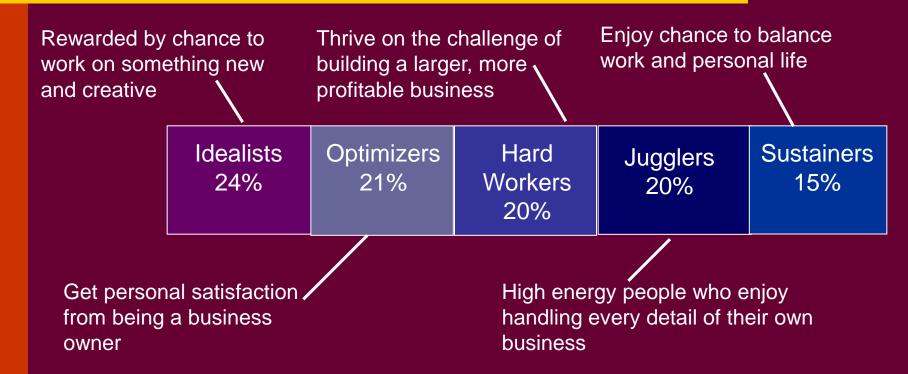
 The annual number of business launches continues to increase



Entrepreneurship

- Process of initiating a business venture
- Organizing the necessary resources
- Assumes associated risks and rewards

Five types of Small Business Owners



SOURCE: Study conducted by Yankelovish Partners, reported in Mark Henricks, "The-Cast," Entrepreneur (March 2000), 14-16.

Entrepreneurship and the Environment

- Turbulence in the technology sector and the demise of many dot-com start-ups = heightened concerns about small companies competing against big business
- Entrepreneurship and small business
 - are vital, dynamic increasing important parts of U.S. economy
 - are booming in other countries

Why Small Business Today?

Economic changes

Globalization

Increased competition

Advancing technology

New market niches

Definition of Small Business

- Definition used by SBA detailed and complex,
- Independently owned and operated
- Not dominant in its field of operation
- Number of employees, depending on the industry
- Annual sales consideration, depending on the industry

General Types of Small Business

- Most entrepreneurs start...
 - Retail
 - Manufacturing
 - Service
- Additional types
 - Construction
 - Communications
 - Finance
 - Real estate

Impact of Entrepreneurial Companies

Impact

The 5.7million U.S. business that have fewer than 100 employees generate 40% of the nation's output

- Approximately 600,000 new businesses each year
- Only 16,000 businesses employ more than 500 people

Job Creation

The 23 million small businesses created 2 million jobs between October 2000 – March 2004

Innovation

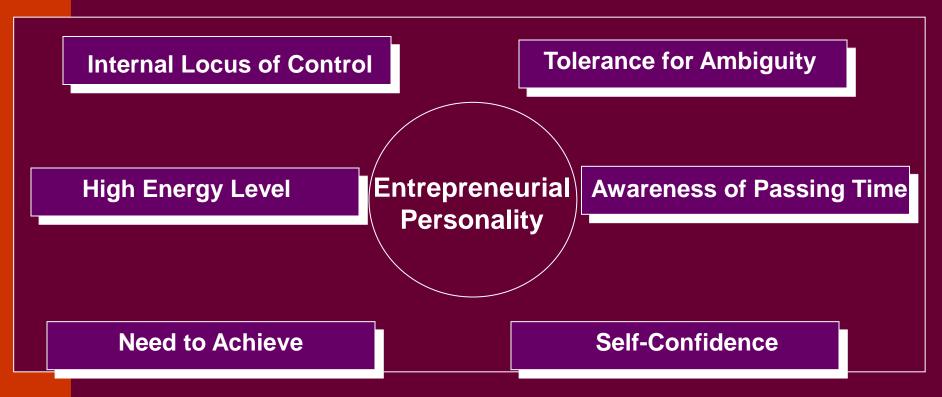
- New and smaller firms have been responsible for 55% of the innovations in 362 different industries and 95% of all radical innovations
- Fast-growing businesses produce twice as many innovations per employee

Who Are Entrepreneurs?

Diversity of Entrepreneurs

- Often have distinguishing backgrounds and demographics – 1st born, children of immigrants
- Emerging growth companies of the next decade
 - Women-owned businesses: 1997-2002 grew 11% (twice rate of all privately-owned businesses)
 - Minority-owned businesses: growing 17% per year with African American growing the fastest

Characteristics of Entrepreneurs

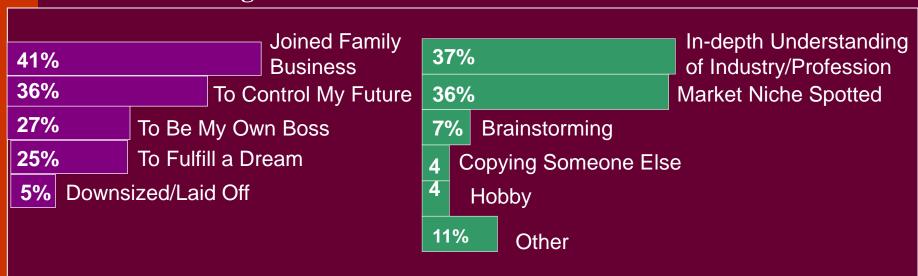


Source: Adapted from Charles R. Kuehl and Peggy A. Lambing, Small Business: Planning and Management (Ft. Worth: The Dryden Press, 1994),45.

Sources of Entrepreneurial Motivation and New-Business Ideas

Reasons for Starting a Business

Source of New-Business Ideas



Source: "The Rewards," Inc. State of Small Business, 2001, May 29 2001, 50-51; and Leslie Brokaw, "How To Start an Inc. 500 Company," Inc. 500, 1994, 51-65.

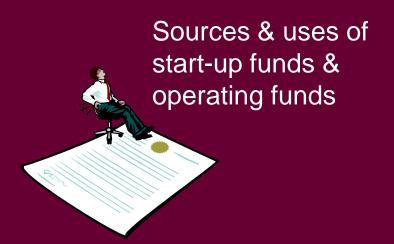
Starting an Entrepreneurial Firm

- Starts with a viable business idea
- Develop a business plan
- Select a legal form of business
- Determine financial resources
- Tactics to become owner

Business Plan

Document specifying the business details prepared by an entrepreneur prior to opening a new business

Clear vision
Realistic financial
projections
Target market
Industry and competitors
Management team
Critical risks that could
threaten success



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Becoming A Business Owner

3 Basic Legal Forms

- Sole Proprietorship = unincorporated business owned by an individual for profit
- Partnership = unincorporated business owned by two or more people
- Corporation = artificial entity created by the state and existing apart from its owners.

Financing Resources

Crucial concern for entrepreneurs

Debt Financing – money to be repaid at a later date



Equity Financing – funds invested in exchange for ownership in the company



Tactics

Ways to Become a Business Owner

Start a New Business

- Advantage develop and design own way
- Disadvantage long time to get off ground and to make profitable

2 Buy an Existing Business

- Advantage shorter time and existing track record
- Disadvantage need to pay for goodwill

Tactics

Ways to Become a Business Owner

- Buy a Franchise = an agreement to sell a product or service of another
 - Advantage management help is provided by owner
 - Disadvantage lack of control
- Participate in a Business Incubator = shared office space, management, support services, management advice

Launching a High-Tech Start-Up

- High-tech start-ups represent a special case
 - Costs and risks are typically extremely high
 - Venture capital bottomed out every year 2000-2003 (dot-coms crash & sharp decline in technology stocks)
 - Recent years revival of high-tech startups
 - Internet companies are making a comback
- High-tech start-ups face many of the same challenges
 some unique issues and problems

Launching a High-Tech Start-Up

- Have a viable idea
- Write a business plan
- Acquire initial financing
- Building and Testing the Product or Service
- Launch company
- Be prepared to obtain additional financing
- Develop partnerships
- Consider going public

Writing the Business Plan

High-Tech Start-up Business Plan Basic Points

- Description of the business and why it is unique
- Profile of potential customers and market needs
- Key ingredient of the business that will attract millions of customers
- Why customers will buy from this company rather than competitors
- What the company has accomplished so far, including partnerships or early customer relationships

Writing the Business Plan

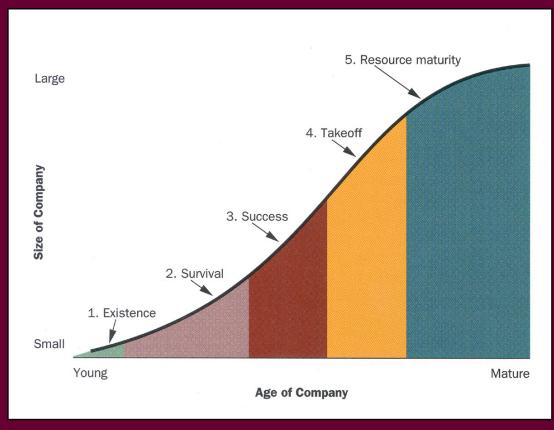
High-Tech Start-up Business Plan Basic Points

- Entrepreneur's background and role in the company
- Specific data about where the company is located, key management people, and contact information
- Essential information about funding received so far, funding and staffing needs, and expectations for growth of the business over the next year



Ethical Dilemma: Closing the Deal

Five Stages of Growth For an Entrepreneurial Company



Planning

- Defining goals and deciding on the tasks and use of resources needed to attain them
- As organization grows, formal planning usually is not instituted until around the success stage
- Business plan must be living document
- Planning concern small businesses need to be Web-savvy

Organizing

- 1st two stages typically very informal
- At 3rd stage, success, functional managers are hired
- Rules and regulations, procedural manuals
- Latter stages, delegation
- Outsourcing organizing approach

- Leading
 - Early stages leader's vision
 - By success stage, must learn to motivate employees or bring in managers who can
 - Need for active communication
- Leadership is important because many small firms have a hard time hiring qualified employees

Controlling

- Financial control important in each stage
- Initial stages exercised by simple accounting records and by personal supervision
- By 3rd stage, operational budgets are in place; structured control systems
- Control Techniques become more sophisticated as the firm matures