Managing Small Business Start-Ups

Chapter 6
Starting a New Business

- Since the 1970s, 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.

Manager’s Challenge: Intermedics
Entrepreneurship

- Process of initiating a business venture
- Organizing the necessary resources
- Assumes associated risks and rewards
Five types of Small Business Owners

- **Idealists (24%)**: Rewarded by chance to work on something new and creative.
- **Optimizers (21%)**: Thrive on the challenge of building a larger, more profitable business.
- **Hard Workers (20%)**: Enjoy chance to balance work and personal life.
- **Jugglers (20%)**: Get personal satisfaction from being a business owner.
- **Sustainers (15%)**: High energy people who enjoy handling every detail of their own business.

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 5.7 million U.S. businesses 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

- Internal Locus of Control
- Tolerance for Ambiguity
- High Energy Level
- Awareness of Passing Time
- Entrepreneurial Personality
- Need to Achieve
- Self-Confidence

Sources of Entrepreneurial Motivation and New-Business Ideas

**Reasons for Starting a Business**
- 41% Joined Family Business
- 36% To Control My Future
- 27% To Be My Own Boss
- 25% To Fulfill a Dream
- 5% Downsized/Laid Off

**Source of New-Business Ideas**
- 37% In-depth Understanding of Industry/Profession
- 36% Market Niche Spotted
- 7% Brainstorming
- 4% Copying Someone Else
- 4% Hobby
- 11% Other

Starting an Entrepreneurial Firm

1. Starts with a viable business idea
2. Develop a business plan
3. Select a legal form of business
4. Determine financial resources
5. 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

Sources & uses of start-up funds & operating funds
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

1. **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

3. Buy a Franchise = an agreement to sell a product or service of another
   - Advantage – management help is provided by owner
   - Disadvantage – lack of control

4. 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 comeback

- 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

1. Description of the business and why it is unique
2. Profile of potential customers and market needs
3. Key ingredient of the business that will attract millions of customers
4. Why customers will buy from this company rather than competitors
5. 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

6. Entrepreneur’s background and role in the company
7. Specific data about where the company is located, key management people, and contact information
8. 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
Managing a Growing Business

- **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
Managing a Growing Business

● 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
Managing a Growing Business

- **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
Managing a Growing Business

- **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