

Chapter 6

Entrepreneurship and Small Business Management

6-1 Becoming an Entrepreneur

6-2 Small Business Basics

6-3 Starting a Small Business

LESSON 6-1

Becoming an Entrepreneur

Goals

- Identify characteristics of successful entrepreneurs.
- Recognize the importance of entrepreneurship in the economy.
- Describe opportunities and risks of entrepreneurship.

Key Terms

- entrepreneur
- entrepreneurship
- venture capital
- innovation
- improvement

Someone who takes a risk in starting a business to earn a profit.

Process of starting, organizing, managing & assuming the responsibility for a business.

CHARACTERISTICS OF ENTREPRENEURS

- Desire to be your own boss
- Special skills and abilities

ENTREPRENEURS IN ACTION

- Pankaj Arora
- Rich Stachowski
- Jeffrey Rodriguez and John Serrano
- Abbey Fleck

Entrepreneurship Stats

WHAT DOES IT TAKE?

Entrepreneurs are more

- persistent
- inquisitive
- energetic
- goal oriented
- independent
- self-confident
- creative
- reliable
- competitive

WHAT DOES IT TAKE? *(continued)*

Entrepreneurs have

- problem-solving skills
- tolerance for ambiguity
- strong integrity
- personal initiative
- ability to secure resources
- capability to learn from failure
- willingness to work hard

>> CHECKPOINT

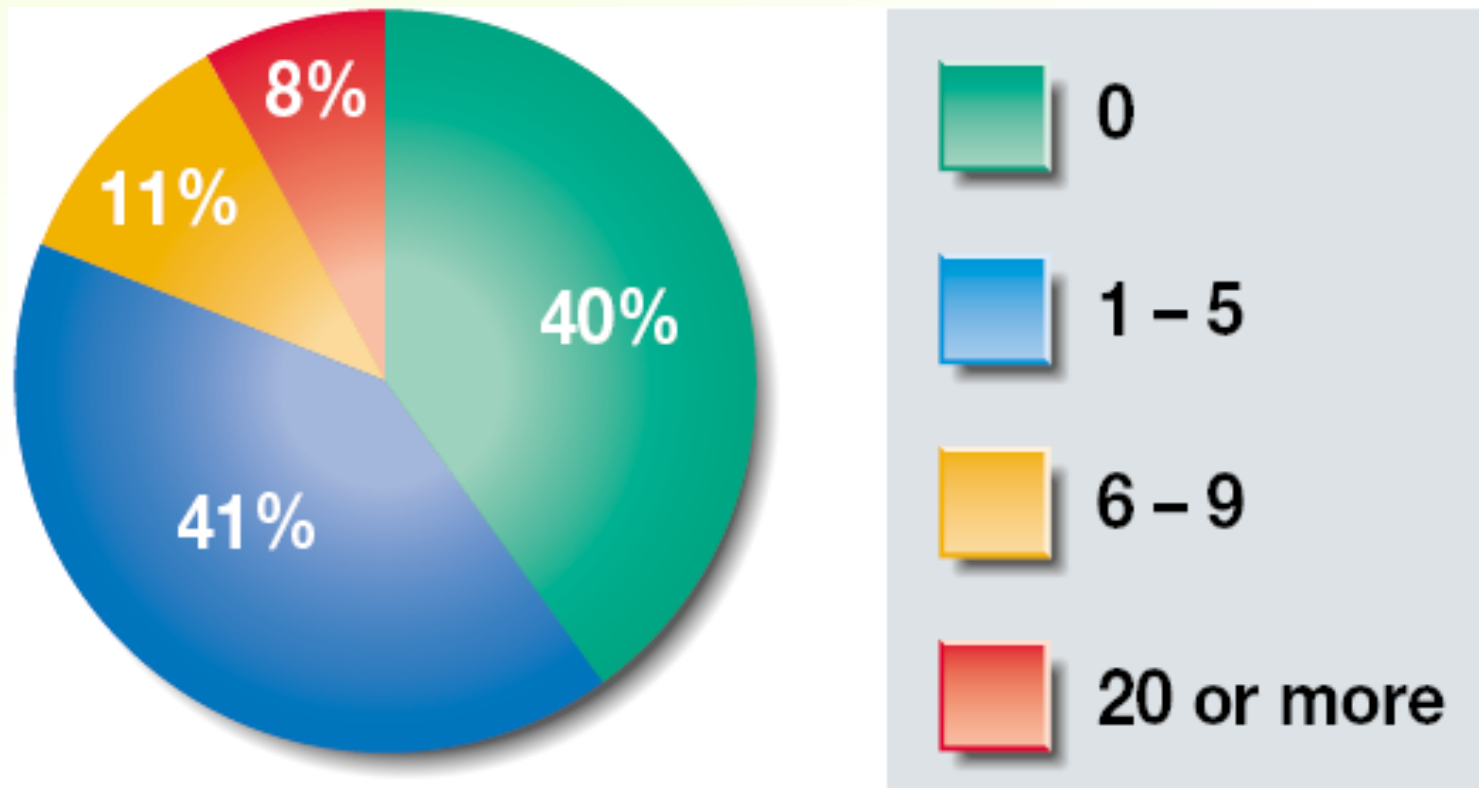
What personal characteristics are common to most successful entrepreneurs?

ENTREPRENEURSHIP AND THE ECONOMY

- Employment
- Financing
- Productivity

Venture Capital – money provided by large investors to finance new businesses or products.

NUMBER OF EMPLOYEES IN NEW BUSINESSES



>> CHECKPOINT

What are the sources of financing that entrepreneurs use for their new businesses?

Venture Capitalism

- Looking for the next big product!

OPPORTUNITIES

- Innovation – an invention or creation that is brand new.
- Improvement – a designed change that increases the usefulness of a product, service or process.

RISKS

■ Recognizing risks

- Lack of adequate capital
- Low sales
- Higher than expected expenses
- Competitive pressure
- An owner unprepared to manage a growing business
- Operations requiring more time than the owner is willing to commit

>> CHECKPOINT

Where do entrepreneurship opportunities begin?

Activity

- Complete 6.1 Activity handout

LESSON 6-2

Small Business Basics

Goals

- Identify important characteristics of small businesses.
- Recognize the competitive advantages of small businesses.
- Identify problems faced by many small businesses.

Key Terms

- small business

- An independent business with fewer than 500 employees.

- Small Business Administration (SBA)

- A government agency that helps small business owners develop business plans and obtain financing and other support for their companies.

What is a Small Business?

- As defined by the SBA, A “Small Business” is an independent business with fewer than 500 employees.
- Using this standard, 99.7% of roughly 24 million American businesses are small businesses.

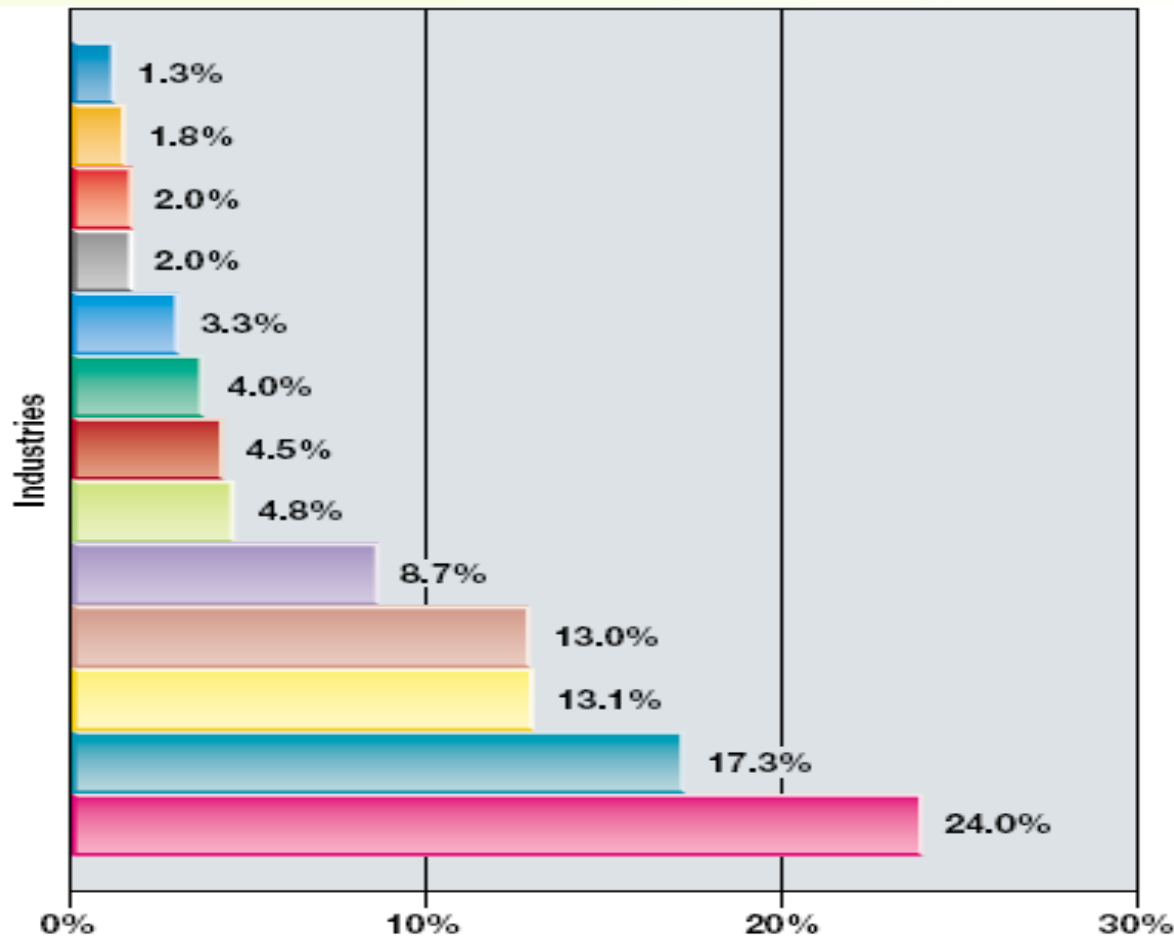
SMALL BUSINESS OWNERSHIP

- Description of a small business
 - Owner is usually the manager
 - Operates in one or very few locations
 - Typically serves a small market
 - Not dominant in its field

Small Business Employment

- Small business employ nearly 50% of all US workers.
- On average small businesses are responsible for creating 60-80% of all new jobs.

COMMON TYPES OF SMALL BUSINESSES



- Information, publishing, and broadcasting
- Hotels and restaurants
- Manufacturing
- Wholesaling
- Finance and insurance
- Agriculture
- Transportation
- Real estate
- Health care
- Construction
- Retailing
- Other services
- Professional, scientific, and technical services

Ownership Diversity/Small business startups

- Half of all small businesses are home-based businesses.
 - Many small business ventures are part-time or service businesses, i.e., work is not constantly being completed.
- To start these small, home-based businesses, Entrepreneurs needed an average of \$5,000 of initial capital.

Ownership Diversity/Small business startup

- Full time businesses with buildings, equipment, and employees may require well over \$100,000 of initial capital to get started.

>> CHECKPOINT

What percentage of employees in the United States work for small businesses?

SMALL BUSINESS ADVANTAGES

- Meeting customer needs
- Providing unique services

Meeting Customer Needs

- Can provide specialized goods/services that larger businesses would not consider profitable to provide.
 - Easier for small businesses to meet the precise needs of customers.
- Small businesses owners often have direct relationships with their customers.

***Assignment - Small vs. Large Business**

- Detail the pros and cons of small businesses vs. large businesses.
 - Write your responses down on paper
 - Include the names of everybody at your table on your paper.
 - Must include five pros and five cons for both large and small businesses. You should have a total of 20 separate items on your sheet.
 - You can use a textbook to help you with your ideas.
 - You have 15 minutes

>> CHECKPOINT

How can small businesses compete successfully with larger businesses?

COMMON REASONS FOR SMALL BUSINESS FAILURE

- Not keeping adequate records
- Not having enough start-up money
- Lack of management experience
- Lack of experience with the type of business
- Not controlling operating expenses
- Poor location for the business
- Failure to manage credit offered to customers

*Assignment – Applied Math

1. Grab a book
2. Get into your stock project groups
3. Open Microsoft excel
4. Using the numbers from the graph on page 133, convert each percentage into the actual number of small business there are in each industry.
5. There are 24 million small businesses in the US.
6. Save you calculation as: “**GroupName_Small Business Calc**” into the Applied Math folder. **Hand In -> Barrett -> Business 4B -> Applied Math**
7. You will submit one dataset per group.
8. Project worth 30 pts, and must be submitted today.

SMALL BUSINESS ASSISTANCE

- Faculties of universities and colleges
- Local groups of business people
- Small Business Administration (SBA)

>> CHECKPOINT

List common reasons for small business failure.

LESSON 6-3

Starting a Small Business

Goals

- Recognize important factors to be considered when starting a business.
- Describe the elements of a business plan.
- Identify types and sources of financing for a small business.

Today's Key Terms

- business plan
- start-up financing
- short-term financing
- long-term financing

THE BUSINESS DECISION

- An idea plus experience
 - Business ideas come from many sources.
 - Hobbies, interest, and previous business experiences often give people ideas for new businesses.
 - Few people should think about starting a business without working for some time in a small business
 - Several years of training in a range of business operations will prepare you for the role of owner

THE BUSINESS DECISION

- Right place and time

- Location, location, location

- Most retail businesses need good customer traffic.
 - A wholesaler needs easy access to manufactures.
 - Manufactures have easy access to raw materials.
 - Transportation systems must also be easily accessible.

THE BUSINESS DECISION

■ Team approach

- A business is not easy to start without the help of others.
- Employees must be selected for their ability to work as a team.
 - Choosing TEAM members is one of the most important initial business decisions.
- Small business owners will need assistance from people with specialized business knowledge.
 - Ex: bankers, lawyers, and accountants

THE BUSINESS DECISION

■ Preparation and research

- Preparation includes having enough information to make good decisions about the business.
- Time spent gathering and studying information before the business is started will save time and avoid later problems.
 - Examples of useful information includes
 - Customer info
 - Competitor analysis
 - Government regulations
 - Exc.

>> CHECKPOINT

Why is it important to use a team approach when starting a new business?

Small Group Discussion (10 min)

- Scenario: p 139

You are planning to open a small business...

...identify three possible business locations in your community and discuss which location would be best for the business.

- Write a two paragraph essay describing your three locations and why you choose them.
(put all of your names on the paper)

Developing a Business Plan

- Q: Often times, what is the difference between a successfully business and one that fails?
- A: A well written, and followed, business plan.

WHAT IS A BUSINESS PLAN?

- A **business plan** is a written description of the business idea and how it will be carried out, including all major business activities.

Key Features of a Business Plan

- General description of the company.
- The credentials of the owner(s)
- A description of the product or service
- An analysis of the market
 - Demand, customers, and competition
- A financial plan

Key Features Cont.

- Most business plans are developed for one year and then updated for the next year.

ELEMENTS OF A BUSINESS PLAN

- Description of the Business
 - The business idea
 - Major products and services
 - Ownership structure
 - Strengths/weaknesses
 - Long- and short-term goals

ELEMENTS OF A BUSINESS PLAN

(continued)

- Description of Competition
 - Characteristics of the industry
 - Condition of the economy
 - Strengths and weaknesses of major competitors

ELEMENTS OF A BUSINESS PLAN

(continued)

- Customer Analysis
 - Description of customers
 - Location, number, and resources of customers
 - Sales forecasts

ELEMENTS OF A BUSINESS PLAN

(continued)

■ Operations Plan

- Organization of the company
- Description of major operations
- Analysis of resources needed
- Human resource plans

ELEMENTS OF A BUSINESS PLAN

(continued)

■ Marketing Plan

- Description of major marketing activities
- Description of resources needed
- Schedule of marketing activities

ELEMENTS OF A BUSINESS PLAN

(continued)

■ Financial Plans

- Start-up costs
- Short- and long-term financial needs
- Sources of financing
- Budgets and financial statements

STEPS IN DEVELOPING THE BUSINESS PLAN

- Gather and review information
- Develop the “game plan”
- Write the plan
- Ask an expert to review the plan

Turn to page 141 in your text. Read the section titled “Steps in Developing the Business Plan

>> CHECKPOINT

What is the “game plan” in a business plan?

FINANCING THE SMALL BUSINESS

■ Types of financing

■ Start-up financing

- The amount of money needed to open the business.

■ Short-term financing

- Money needed to pay for the current operating activities.

■ Long-term financing

- Money needed for the main resources of a business (land, buildings, and equipment that will last for many years).

FINANCING THE SMALL BUSINESS cont.

- Sources of financing
 - Owner-supplied funds
 - Borrowed funds (returned + interest)
- Proprietorship funding –
- Partnership funding –
- Corporate funding -

>> CHECKPOINT

In addition to owner-supplied capital, what are several other sources of financing for a small business?