

# CHAPTER 1

## SMALL BUSINESS

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An Overview



# LEARNING OUTCOMES

After reading this chapter, you should be able to:

- 1.1 Describe the characteristics of small business.
- 1.2 Explain the role of small business in the U.S. economy.
- 1.3 Discuss the importance of diversity in the marketplace and the workplace.
- 1.4 Identify some of the opportunities available to small businesses.
- 1.5 Suggest ways to court success in a small business venture.
- 1.6 Name the most common causes of small business failure.

When you visualize “small business” do you think of old-fashioned diners or touristy little T-shirt shops? While those may be small businesses they certainly don’t represent the entire genre—especially if *you* are not interested in diners or T-shirts.

How about working in, or owning a business that requires employees to do something that would get them fired in about every other business? Playing video games on their phones. Andrew Paradise created the company Skillz with the requirement that every person in the business (including him) has to play video games a minimum of 35 times per week. Every employee that plays at least 50 times enters a raffle to choose the lunch menu for catered office lunch on Fridays. Overachievers like Don Kim regularly play over 500 times each week—which has earned him the nickname “Beast.”

Why would a small business want its people to play video games? Because Skillz provides the online venue for organizing game tournaments, arranging competitions, managing entry fees and payouts to winners, and catching ringers, hackers, and cheats. Most participants just play for fun, but 10 percent pay entry fees ranging from \$.60 to \$20 per game. Of the entry fees, 86 percent goes to the prize pool, 7 percent goes to game developers, and 7 percent goes to Skillz.

How big a deal can seven percent be to the company that started in 2012? In 2013, that 7 percent meant \$108,144 in revenue. In three short years 12 million registered users in 180 countries took that 7 percent to \$54 million in annual revenue!

Amazingly, more time is spent playing video games than physical sports, and eSports could soon become bigger than the NFL, NBA, MLB, and NHL combined. Skillz is well positioned by providing the platform for over 3,000 eSport game development companies. Nielsen estimates there are

191 million eSports enthusiasts, of which 61 percent are Millennials.

Andrew Paradise wants to own a unique spot in online gaming—not first-person shooters that take computer horsepower to operate. Rather, Paradise focuses exclusively on mobile devices better suited for games like Bubble Shooter, Doodle Jump, Color Switch, bowling, even dominoes and solitaire.

Paradise’s small business Skillz illustrates points that you will see throughout the pages and chapters to come—all you need is to find a niche in a market, have the skills to create a competitive advantage, and small business does not have to be boring.

Sources: David Whitford, “The Skillz to Conquer,” *Inc.*, September 2017, 20–25; Eric Schurenberg, “500 Dreams Come True. Are You Listening, Washington?” *Inc.*, September 2017, 14; Miriam Aguirre, “Esports’ Future is Female,” September 5, 2017, <https://venturebeat.com/2017/09/05/esports-future-is-female>.

## Concept Module 1.1: What Is Small Business?

- **LO 1.1: Describe the characteristics of small business.**

As the driver of the free enterprise system, small business generates a great deal of energy, innovation, and profit for millions of Americans. While the names of huge Fortune 500 corporations may be household words pumped into our lives via a multitude of media, small businesses have always been a central part of American life. In his 1835 book *Democracy in America*, Alexis de Tocqueville commented, “What astonishes me in the United States is not so much the marvelous grandeur of some undertakings as the innumerable multitude of small ones.” If

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de Tocqueville were alive today, aside from being more than 200 years old, he would probably still be amazed at the contributions made by small businesses.

The U.S. Small Business Administration (SBA) Office of Advocacy estimates there were 28.8 million businesses in the United States in 2006. Census data show that only 20 percent (5.8 million) of those 28.8 million businesses have employees, and 80 percent (23 million) do not.<sup>1</sup> The IRS estimate may be overstated because one business can own other businesses, but all of the businesses are nevertheless counted separately. What a great time to be in (and be studying) small business! Check out the following facts. Did you realize that small businesses

- Represent more than 99.7 percent of *all* employers?
- Employ 48 percent of all private sector employees?
- Pay 41.2 percent of total U.S. private payroll?
- Created 63.3 percent of net new jobs over the past 20 years?
- Represented 98 percent of all identified exporters and produced 33 percent of the known export value in FY2017?<sup>2</sup>
- Produce 16 times more patents per employee than large firms?
- Create more than 50 percent of private gross domestic product (GDP)?
- Hire 42 percent of high-tech workers (such as scientists, engineers, and computer programmers)?
- Are about 50 percent home based and 2.9 percent franchises?<sup>3</sup>

Small businesses include everything from the stay-at-home parent who provides day care for other children, to the factory worker who makes after-hours deliveries, to the owner of a chain of fast-food restaurants. The 28.8 million businesses identified by the SBA included more than 9 million Americans who operate “sideline” businesses, part-time enterprises that supplement the owner’s income.<sup>4</sup> Another 12 million people make owning and operating a small business their primary occupation. Seven million of these business owners employ only themselves—as carpenters, independent sales representatives, freelance writers, and other types of single-person businesses. The U.S. Census Bureau tracks firms by number of employees. The firms included in the census figures are those that have a tangible location and claim income on a tax return. Figure 1.1 shows that 57 percent of employer firms (established firms with employees) have fewer than 5 employees. Slightly more than 128,000 businesses have 100 employees or more. Most people are surprised to learn that of the millions of businesses in the United States, only approximately 23,000 businesses have 500 or more workers on their payroll.

## Size Definitions

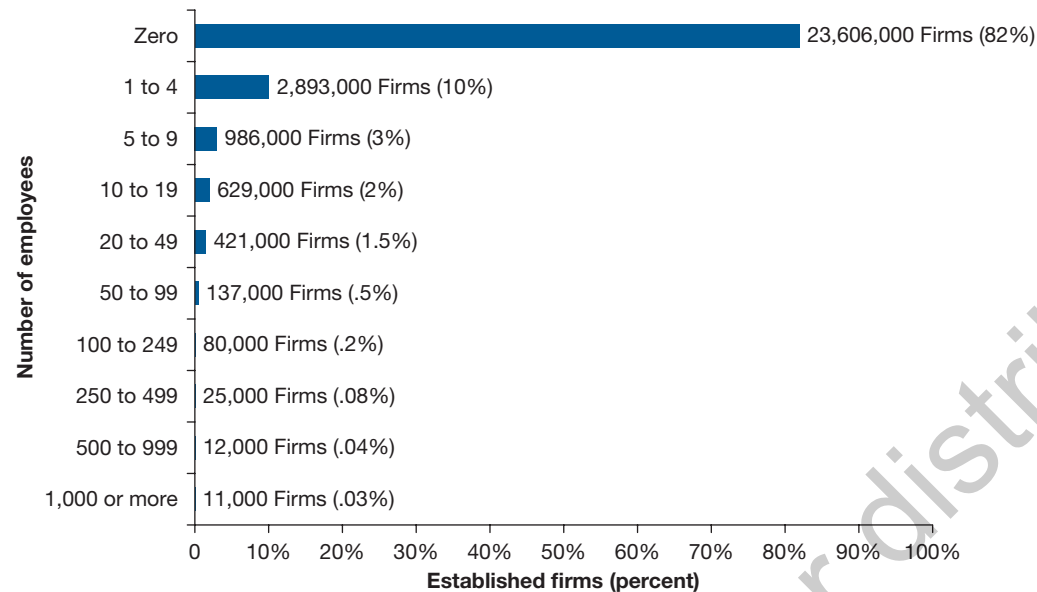
The definition of **small business** depends on the criteria used for determining what is “small” and what qualifies as a “business.” The most common criterion used to distinguish between large and small businesses is the number of employees (Figure 1.1). Other criteria include sales revenue, the total value of assets, and the value of owners’ equity. The SBA, a federally funded agency that provides loans and assistance to small businesses, has established definitions of business size that vary by industry. These definitions are based on annual sales revenues or number of employees, and they vary by industry codes assigned by the North American Industrial Classification System (NAICS).

### small business

A business is generally considered small if it is independently owned, operated, and financed; has fewer than 100 employees; and has relatively little impact on its industry.

▼ FIGURE 1.1

### Almost All Established Firms Are Small Businesses, 2017



Source: U.S. Department of Labor, Bureau of Labor Statistics, “Business Employment Dynamics, Table G. Distribution of private sector firms by size class: 1993/Q1 through 2017/Q1,” accessed December 2017, [www.bls.gov/web/cewbd/table\\_g.txt](http://www.bls.gov/web/cewbd/table_g.txt)

The SBA’s Size Policy Board makes recommendations of business size eligibility based on economic studies. In establishing and reviewing business size standards, it considers the following factors:

- Industry structure analysis
- Degree of competition
- Average firm size
- Start-up cost
- Entry barriers, distribution of sales, and employment by firm size
- Effects of different size standard levels on the objectives of SBA programs
- Comments from the public on notices of proposed rule making<sup>5</sup>

Small business size standards vary by the industry within which the business operates: construction, manufacturing, mining, transportation, wholesale trade, retail trade, and service. In general, manufacturers with fewer than 500 employees are classified as small, as are wholesalers with fewer than 100 employees, and retailers or services with less than \$6 million in annual revenue. Table 1.1 details more specific size standards.

Why is it important to classify businesses as big or small? Aside from facilitating academic discussion of the contributions made by these businesses, the classifications are important in that they determine whether a business may qualify for SBA assistance and for government set-aside programs, which require a percentage of each government agency’s purchases to be made from small businesses.

### Types of Industries

Some industries lend themselves to small business operation more than others do. In construction, for instance, the SBA classifies over 80 percent of companies in the industry as small. Manufacturing and mining industries have long been associated with mass employment,

▼ TABLE 1.1

## Small Business Size Standards

Range of Size Standards by Industry
<b>Construction:</b> General building and heavy construction contractors have a size standard of \$33.5 million in average annual receipts. Special trade construction contractors have a size standard of \$14 million.
<b>Manufacturing:</b> For approximately 75 percent of the manufacturing industries, the size standard is 500 employees. A small number have a 1,500-employee size standard, and the balance have a size standard of either 750 or 1,000 employees.
<b>Mining:</b> All mining industries, except mining services, have a size standard of 500 employees.
<b>Retail Trade:</b> Most retail trade industries have a size standard of \$7 million in average annual receipts. A few, such as grocery stores, department stores, motor vehicle dealers, and electrical appliance dealers, have higher size standards. None exceed \$29 million in annual receipts.
<b>Services:</b> For the service industries, the most common size standard is \$7 million in average annual receipts. Computer programming, data processing, and systems design have a size standard of \$25 million. Engineering and architectural services have different size standards, as do a few other service industries. The highest annual receipts size standard in any service industry is \$35.5 million. Research and development and environmental remediation services are the only service industries with size standards stated in number of employees.
<b>Wholesale Trade:</b> For all wholesale trade industries, a size standard of 100 employees is applicable for loans and other financial programs. When acting as a dealer on federal contracts set aside for small business or issued under the 8(a) program, the size standard is 500 employees, and the firm must deliver the product of a small domestic manufacturer.
<b>Other Industries:</b> Other industry divisions include agriculture; transportation, communications, electric, gas, and sanitary services; finance; insurance; and real estate. Because of wide variations in the structures of the industries in these divisions, there is no common pattern of size standards. For specific size standards, refer to the size regulations in 13 CFR § 121.201 or the table of small business size standards.

as well as mass production, yet SBA data show that over 40 percent of manufacturers and mining companies are classified as small. More than 65 percent of all real estate businesses are small. Just under two-thirds (62.3 percent) of arts, entertainment, and recreational service businesses are small.<sup>6</sup> The industry that employs the largest number of people in small business, however, is services. Seventy-one percent of all service businesses are small.

For purposes of discussion in this book, we will consider a business to be small if it meets the following criteria:

- *It is independently owned, operated, and financed.* One or very few people run the business.
- *It has fewer than 100 employees.* Although SBA standards allow 500 or more employees for some types of businesses to qualify as “small,” the most common limit is 100.
- *It has relatively little impact on its industry.* New Belgium Brewing Company, maker of Fat Tire beer, brews about one million barrels generating annual revenue of \$180 million. Although this is an impressive figure, the firm is still classified as a small business because it has little influence on Anheuser-Busch or Heineken, which had 2016 sales of \$45.52 billion and \$22.5 billion, respectively.<sup>7</sup>

### Microbusinesses

While the SBA uses the broad size definition cited above, the Association for Enterprise Opportunity (AEO—a trade group dedicated to microbusinesses) and the U.S. Census

Bureau define microbusiness as one with fewer than five employees, including the owner.<sup>8</sup> For example, a law firm with two attorneys and a paralegal; the owner of a corner grocery store with a stock assistant and a clerk; an after-school tutor; a computer technician; or an independent truck driver. Historically, such businesses have been regarded as too small to count; today, microbusinesses are becoming too important to ignore.

How much impact could businesses with so few employees generate? For starters, they employ more people than are in the government sector—federal, state, and local levels combined. They employ more than twice as many people as those in manufacturing (Figure 1.2).

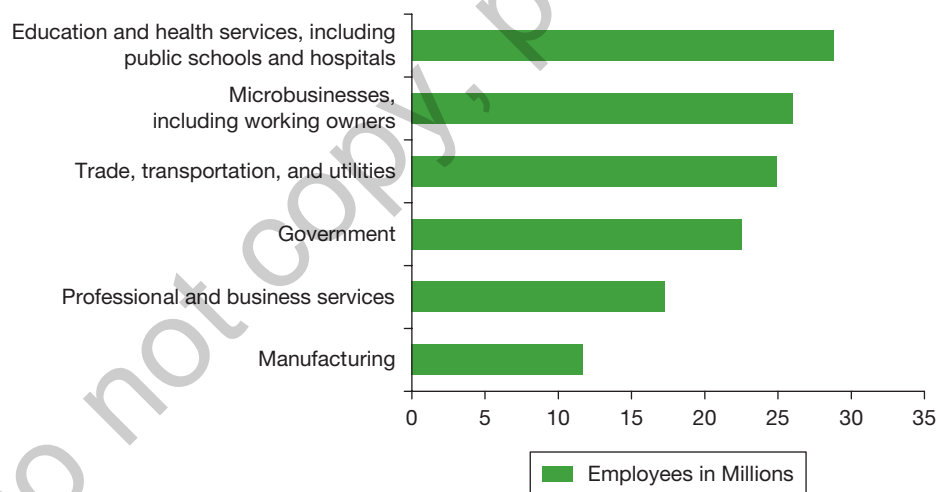
With a group of over 26 million, one would expect a lot of variation in owner type. Five types of microbusiness owners provide insight into groups that are similar. See Figure 1.3.

Technology creates all kinds of possibilities for microbusiness. We will discuss location-neutral businesses and co-working spaces later (in Chapter 12). These two factors combined with the desire by many to have more flexibility in hours worked and online platforms to facilitate transactions make microbusinesses a viable alternative.



▼ FIGURE 1.2

### Microbusiness Employment Compared to Industry Sectors

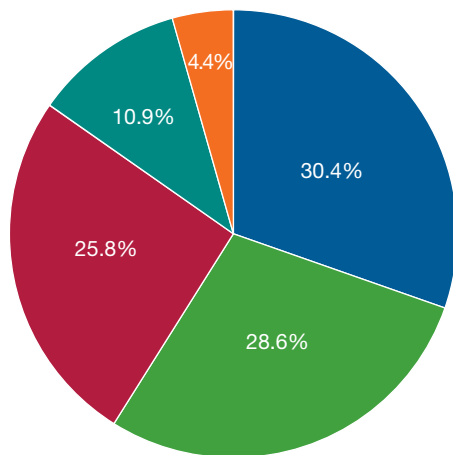


### Concept Check Questions

1. How would you define *small business*?
2. Name a company that seems large but might be classified as small because it has relatively little impact on its industry.
3. What are the criteria commonly used to define small business?

▼ FIGURE 1.3

### Five Types of Microbusiness Owner



■	Full time – Owner works full time in microbusiness that generates less than \$50K in annual revenue
■	Full time – Owner works full time in microbusiness that generates more than \$50K in annual revenue
■	Part time – Microbusiness does not provide primary source of owner income
■	Part time – Microbusiness provides primary source of owner income
■	Newcomer – No previous business ownership experience and in current business less than four years as owner's primary source of income

## Concept Module 1.2: Small Businesses in the U.S. Economy

- LO 1.2: Explain the role of small business in the U.S. economy.

Until the early 1800s, all businesses were small in the way just described. Most goods were produced one at a time by workers in their cottages or in small artisan studios. Much of the U.S. economy was based on agriculture. With the Industrial Revolution, however, mass production became possible. Innovations such as Samuel Slater's textile machinery, Eli Whitney's cotton gin, and Samuel Colt's use of interchangeable parts in producing firearms changed the way business was conducted. Factories brought people, raw materials, and machinery together to produce large quantities of goods.

Although the early manufacturers were small, by the late 1800s businesses were able to grow rapidly in industries that relied on economies of scale for their profitability. **Economy of scale** is the lowering of costs through production of larger quantities. The more units you make, the less each costs. During this time, for example, Andrew Carnegie founded U.S. Steel, Henry Ford introduced the assembly line for manufacturing automobiles, and Cornelius Vanderbilt speculated in steamships and railroads. Although these individuals began as entrepreneurs, their companies eventually came to dominate their respective industries. The costs of competing with them became prohibitively high as the masses of capital they accumulated formed a barrier to entry for newcomers to the industry. The subsequent industrialization of America decreased the impact of new entrepreneurs over the first half of the 20th century.<sup>9</sup> Small businesses

still existed during this period, of course, but the economic momentum that large businesses had gathered kept small businesses in minor roles.

The decades following World War II also favored big business over small business. Industrial giants like General Motors and IBM, and retailers like Sears, Roebuck and Company flourished during this period by tapping into the expanding consumer economy. President Franklin Roosevelt's New Deal programs aimed at economic development focused on government programs in conjunction with large businesses. Little attention was given to stimulate small business.<sup>10</sup>

In the late 1950s and early 1960s, another economic change began. Businesses began paying more attention to consumer wants and needs, rather than focusing solely on production. This paradigm shift was called the **marketing concept**—finding out what people want and then producing that good or service, rather than making products and then trying to convince people to buy them. With this shift came an increased importance ascribed to the service economy. The emphasis on customer service by businesses adopting the marketing concept started to provide more opportunities for small business. Today, the **service sector** of our economy makes up about 81 percent of total U.S. jobs, producing services for customers rather than tangible products.<sup>11</sup> The growth of this sector is important to small businesses because they can compete effectively in it.

In 1953, President Dwight Eisenhower signed the Small Business Act into law creating the Small Business Administration to “encourage” and “develop” small business growth, and to aid minorities and other disadvantaged people in securing loans and learning management

#### Economy of scale

The lowering of costs through production of larger quantities.

#### marketing concept

The philosophy of a business in which the wants and needs of customers are determined before goods and services are produced.

#### service sector

Businesses in an economic sector that provide services, rather than tangible goods.

techniques. The act reads, “The essence of the American economic system of private enterprise is free competition. Only through full and free competition can free markets, free entry into business, and opportunities for the expression and growth of personal initiative and judgement be assured.”<sup>12</sup>

By the early 1970s, corporate profits began to decline, while these large firms’ costs increased. Entrepreneurs such as Steve Jobs of Apple and Bill Gates of Microsoft started small businesses and created entirely new industries that had never before existed. Managers began to realize that bigger is not necessarily better and that economy of scale does not guarantee lower costs. Other start-ups, such as Walmart and The Limited, both of which were founded in the 1960s, dealt serious blows to retail giants like Sears in the 1970s. Because their organizational structures were flatter, the newer companies could respond more quickly to customers’ changing desires, and they were more flexible in changing their products and services.

The global economic crisis that began in 2007 had a tremendous impact on small business. Disruption of small business financing was significant due to the close connection between the business and the owner—with home second mortgages and lines of credit—putting the small business owner’s home in play in case of loan default. Tactics for small business owners to deal with the credit squeeze revolved primarily around protecting cash flow to decrease dependence on external funding.

What many countries, regions, and local governments have come to realize is the importance of small businesses to economic development. Increasingly, economic development experts are abandoning traditional approaches to economic development that rely on recruiting large employers with tax breaks, financial incentives, and other inducements. What works now is building businesses from the ground up and supporting growth of existing businesses. This approach accomplishes two goals:

1. Develop and support entrepreneurs and small business.
2. Expand and improve infrastructure and develop a skilled and educated workforce.

The economic development goal of enticing large firms to move are seldom reached—or at a long-term cost higher than the value of the jobs gained.<sup>13</sup> Chiquita Brands International (think bananas) accepted \$22 million worth of state and local tax incentives to move its corporate headquarters to Charlotte, North Carolina, in exchange for bringing more than 400 jobs. It agreed to stay for 10 years. But after only 3 years, Chiquita decided to move to Cincinnati, Ohio, after a high-profile Twitter recruitment campaign. Feeling jilted, Charlotte economic development officials are now rethinking the incentives they will offer in the future. Commissioner Jim Puckett says “It’s like my dad always told me, if the girl dates you for your money, etc., remember there is always someone with more of whatever she is looking for.”<sup>14</sup>

## Increased Business Start-Ups

Indeed, the rate of small business growth has more than doubled in the last 47 years. In 1970, 264,000 new employer businesses were started.<sup>15</sup> In 1980, that figure had grown to 532,000; it reached 585,000 in 1990, 574,000 in 2000, falling to 385,358 in 2010, and rebounding to 403,902 in 2014.<sup>16</sup> Although a lot of attention tends to be paid to the failure rate of small businesses, many people continue going into business for themselves. New businesses compared with closures are consistently close in number. While annual business closures were greater



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▲ Service businesses dominate the U.S. economy and are primarily small.

“Managers began to realize that bigger is not necessarily better and that economy of scale does not guarantee lower costs.”



than start-ups for the years 2009–2011, the trend has reversed with 2014 seeing 403,902 start-ups versus 391,553 closures.<sup>17</sup>

### Increasing Interest at Colleges and Universities

The growing economic importance of small business has not escaped notice on college and university campuses. In 1985, only 250 entrepreneurship courses were offered in the United States. By 2008, that number had grown to over 5,000.<sup>18</sup>

A recent study found that 61 percent of recent college graduates want to start their own business. Forty-five percent think it is very likely they will do so, and 20 percent have already started a business of their own before graduating. Even the 30 percent of graduates who concede it is highly unlikely they will be self-employed say they would like to do so. There is a gap between desire and reality indicated by half of those who want to start a business but believe that it's really feasible. Two-thirds admit they don't completely understand critical functions of starting a business, such as how to incorporate their business or write a business plan.<sup>19</sup>

“In 1985, only 250 entrepreneurship courses were offered in the United States. By 2008, that number had grown to over 5,000.”

What can explain this phenomenal growth of interest in small business at educational institutions? For one thing, it parallels the explosion in small business formation. For another thing, since mistakes made in running a small business are expensive in terms of both time and money, many prospective business owners attend school in order to make those mistakes on paper and not in reality.

Some students don't wait for graduation to take advantage of hot college trends—such as Miranda Wang with her company BioCollection. While an undergrad at Wharton, Wang knew that plastic works well for many applications, but that most plastic is never recycled because of difficulties in processing and remolding it. BioCollection's mission is “to focus on treating this plastic innovatively before it becomes pollution.” Its first product is an artist's paint made from plastic bags.<sup>20</sup>

### Concept Check Questions

1. This module discusses growth of interest in entrepreneurship on campuses, which causes some to wonder if entrepreneurship can be taught or are you born one. What do you think? Why?
2. Why is the service sector dominated by small businesses?
3. How would you show that small business is becoming a more important part of the economy?

### Concept Module 1.3: Workforce Diversity and Small Business Ownership

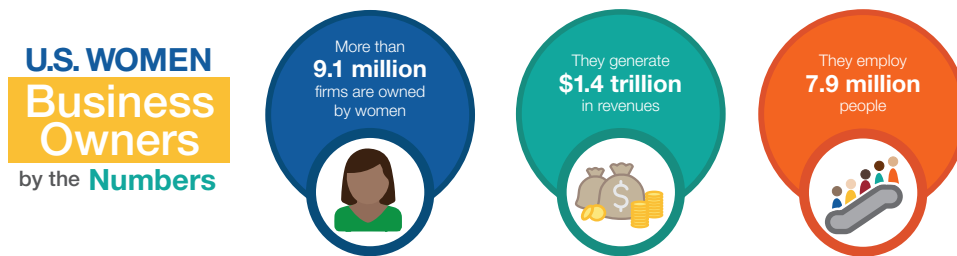
- **LO 1.3: Discuss the importance of diversity in the marketplace and the workplace.**

Data from the Census Bureau Survey of Business Owners (SBO) and the Bureau of Labor Statistics show that women owned 9.1 million nonfarm U.S. businesses in 2016—an increase of 38 percent since 2002 (Figure 1.4). The trend toward self-employment is reflected in all nonwhite categories by large percentage gains, up to 22 percent in 2016.<sup>21</sup>

Trends of an aging population, increasing birthrate of minority groups, more attention to the needs and abilities of people with disabilities, and more women entering the workforce are changing the way our nation and our businesses operate. The intent of most civil rights law is to ensure all groups are represented and that discrimination is not tolerated. Wheels of change

▼ FIGURE 1.4

## U.S. Women Business Owners by the Numbers



Sources: "The 2017 State of Women-Owned Businesses Report," National Association of Women Business Owners, [www.nawbo.org/resources/women-in-business-owner-statistics](http://www.nawbo.org/resources/women-in-business-owner-statistics); icons from Alena Artemova, Alice Noir, and Wilson Joseph.

tend to move slowly, and inequities persist across wide ranges of groups of people, but progress is being made, especially among the self-employed.

The number of women-owned firms and their annual revenues:<sup>22</sup>

- Women-owned firms make up 39 percent of all privately owned businesses.
- They generate 14 percent of employment and 12 percent of total revenues.
- Twenty percent of firms with revenue of over \$1 million are women owned.

The number of minority-owned firms and their annual revenues:<sup>23</sup>

- Asian-owned firms totaled 1,917,902 and generated \$699.5 billion annual revenue.
- Black-owned firms totaled 2,584,403 and generated \$150.2 billion annual revenue.
- Hispanic-owned businesses totaled 1,573,464 and generated \$222 billion annual revenue.
- American Indian/Alaska Native-owned firms totaled 272,919 and generated \$38.8 billion annual revenue.
- The rate of minority business ownership in 2016 was 22 percent, compared with 14.6 percent in 2012.

"These data show that when faced with the choice of working for someone else or working for themselves, people from widely varied backgrounds choose the latter."

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Resources exist to specifically assist women- and minority-owned businesses. The SBA 8(a) federal certification program promotes access for entrepreneurs who are socially or economically disadvantaged to federal contracts. SBA 8(a) certification provides women and minority business owners preference in bidding on federal and some state contracts. Professional organizations such as the Techstars Foundation, Code2040, 500 Startups, Black Founders, National Association of Women Business Owners ([nawbo.org](http://nawbo.org)) and Women's Business Enterprise National Council ([wbenc.org](http://wbenc.org)) provide networking, educational, and corporate contract information.<sup>24</sup>



## The Value of Diversity to Business

Considering the number of problems most small business owners face, perhaps more of them will make the same discovery that Ernest Drew did in the following story: Diversity in the workplace can provide creative problem-solving ideas.

Ernest Drew, CEO of chemical producer Hoechst Celanese, learned the value of diversity during a company conference. A group of 125 top company officials, primarily white men, were separated into groups with 50 women and minority employees. Some of the groups comprised a variety of races and genders; others were composed of white men only. The groups were asked to analyze a problem concerning corporate culture and suggest ways to change it. According to Drew, the more diverse teams produced the broadest solutions. “They had ideas I hadn’t even thought of,” he recalled. “For the first time, we realized that diversity is a strength as it relates to problem solving.”<sup>25</sup> Drew’s conclusion that a varied workforce is needed at every level of an organization can be applied to businesses of any size.

### Concept Check Questions

1. Is workforce diversity as important to small businesses as it is to big businesses? Why or why not?
2. From strictly a small business perspective (not social or emotional perspectives), why is diversity important?
3. How might an increase in women-owned small businesses drive change toward more equal pay for equal work in the workforce?

## Concept Module 1.4: Secrets of Small Business Success

- LO 1.4: Identify some of the opportunities available to small businesses.
- LO 1.5: Suggest ways to court success in a small business venture.

When large and small businesses compete directly against one another, it might seem that large businesses would always have a better chance of winning. In reality, small businesses have certain inherent factors that work in their favor. You will improve your chances of achieving success in running a small business if you identify your competitive advantage, remain flexible and innovative, cultivate a close relationship with your customers, and strive for quality.

“

It may come as a surprise, but big businesses need small businesses—a symbiotic relationship (the type where both parties benefit) exists between them.”

”

It may come as a surprise, but big businesses need small businesses—a symbiotic relationship (the type where both parties benefit) exists between them. For instance, John Deere relies on hundreds of vendors, many of which are small, to produce component parts for its farm equipment. Deere’s extensive network of 3,400 independent dealers, comprising small businesses, provides sales and service for its equipment. These relationships enable Deere, the world’s largest manufacturer of farm equipment, to focus on what it does best, while at the same time creating economic opportunity for hundreds of individual entrepreneurs.

Small businesses perform more efficiently than larger ones in several areas. For example, although large manufacturers tend to enjoy a higher profit margin due to their economies of scale, small businesses are often better at distribution. Most wholesale and retail businesses are small, which serves to link large manufacturers more efficiently with the millions of consumers spread all over the world.

### competitive advantage

The facet of a business that is better than the competition’s. A competitive advantage can be built from many different factors.

### Competitive Advantage

To be successful in business, you have to offer your customers more value than your competitors do. That value gives the business its **competitive advantage**. For example, suppose you

are a printer whose competitors offer only black-and-white printing. An investment in color printing equipment would give your business a competitive advantage, at least until your competitors purchased similar equipment. The stronger and more sustainable your competitive advantage, the better your chances are of winning and keeping customers. You must have a product or service that your business provides better than the competition, or the pressures of the marketplace may make your business obsolete (see Chapter 3).

**Flexibility.** To take advantage of economies of scale, large businesses usually seek to devote resources to produce large quantities of products over long periods of time. This commitment of resources limits their ability to react to new and quickly changing markets as small businesses do. Imagine the difference between making a sharp turn in a loaded 18-wheel tractor trailer and a small pickup truck. Now apply the analogy to large and small businesses turning in new directions. The big truck has a lot more capacity, but the pickup has more maneuverability in reaching customers.

**Innovation.** Real innovation has come most often from independent inventors and small businesses. The reason? The research and development departments of most large businesses tend to concentrate on the improvement of the products their companies already make. This practice makes sense for companies trying to profit from their large investments in plant and equipment. At the same time, it tends to discourage the development of totally new ideas and products. For example, does Apple have an economic incentive to invent a product that makes iPhones obsolete? No, they have incentive to release lines of incremental new models with enough variations to get us to upgrade.

Small businesses have contributed many inventions that we use daily. The long list would include zippers, air conditioners, helicopters, computers, instant cameras, audiotape recorders, double-knit fabric, fiber-optic examining equipment, heart valves, optical scanners, soft contact lenses, airplanes, and automobiles, most of which were later produced by large manufacturers. In fact, many say the greatest value of entrepreneurial companies is the way they force larger competitors to respond to innovation. Small businesses innovate by introducing new technology and markets, creating new markets, developing new products, and nurturing new ideas—actions that larger businesses have to compete with, thereby requiring the larger businesses to change.

Economist Joseph Schumpeter called the replacement of existing products, processes, ideas, and businesses with new and better ones **creative destruction**. It is not an easy process. Yet, although change can be threatening, it is vitally necessary in a capitalist system.<sup>26</sup> Small businesses are the driving force of change that leads to creative destruction, especially in the development of new technology.<sup>27</sup>

In 2001, General Electric was the most valuable company in the world. In 2017, it didn't make the top 50, and 5 of the top 10, Alphabet, Amazon, Facebook, Tencent, and Alibaba were start-ups or didn't exist in 2000.<sup>28</sup>

Small businesses play a major role in creating the innovation that Schumpeter discussed. Four types of innovation that small businesses are most likely to produce include

- *Product innovation:* Developing a new or improved product.
- *Service innovation:* Offering a new or altered service for sale.
- *Process innovation:* Inventing a new way to organize physical inputs to produce a product or service.
- *Management innovation:* Creating a new way to organize a business's resources.

The most common types of innovation relate to services and products. Thirty-eight percent of all innovations are service related, and 32 percent are product related. Interestingly, the

“Creativity is allowing yourself to make mistakes. Art is knowing which ones to keep.” —Scott Adams

“Small businesses are the driving force of change that leads to creative destruction, especially in the development of new technology.”

**creative destruction**

The replacement of existing products, processes, ideas, and businesses with new and better ones.

SBA found the majority of innovations originate from the smallest businesses, those with 1 to 19 employees. More than three-fourths of service innovations are generated by very small businesses, which also generate 65 percent of both product and process innovations. Small firms account for 14 percent of green technology patents and more than 32 percent of patents in both smart grids and solar energy. Recent research reported to the SBA's Office of Advocacy showed that small patenting firms produce 16 times more patents per employee as large patenting firms.<sup>29</sup>

The process of creative destruction is not limited to high-technology businesses or to the largest companies. A small business owner who does not keep up with market innovations risks being left behind. Creative destruction occurs in mundane as well as exotic industries, such as chains of beauty salons replacing barber shops.

The structure of small businesses set them up to be incubators for innovation—fewer decision makers, fewer employees, and lean business models are competitive advantages. When conditions change, small businesses can pivot and adapt. Still, innovation is not easy—even for small business owners. To make innovation a priority, small business owners need to

- *Take risks:* Staying in the pack is easier and safer in almost every situation, business or otherwise. Taking carefully calculated risks can lead to competitive advantage.
- *Take advantage of customer connections:* Proximity to customers gives small business owners access to good ideas that come from the people actually using their products/services.
- *Keep decision-making agile:* Few things kill innovation faster than multiple layers of decision makers or bureaucracy—neither of which is associated with small business.
- *Experiment and adapt:* Innovation comes from the habit of simply trying new things without expecting every new idea to be a success.
- *Hire for innovation:* The thinking of creative, forward-thinking people is contagious.<sup>30</sup>

**Close Relationship to Customers.** Small business owners get to know their customers and neighborhood on a personal level. This closeness allows them to provide individualized service and gives them firsthand knowledge of customer wants and needs. By contrast, large businesses get to “know” their customers only through limited samples of marketing research (which may be misleading). Knowing customers personally can allow small businesses to build a competitive advantage based on specialty products, personalized service, and quality, which enables them to compete with the bigger businesses' lower prices gained through mass production. For this reason, you should always remember that the rapport you build with your customers is of vital importance—it is what makes them come back again and again.

## Getting Started on the Right Foot

Before starting your own business, you will want to make sure that you have the right tools to succeed. Look for a market large enough to generate a profit, sufficient capital, skilled employees, and accurate information.

**Market Size and Definition.** Who will buy your product or service? Marketing techniques help you find out what consumers want and in what quantity. Armed with this information, you can make an informed decision about the profitability of offering a particular good or service. Once you conclude that a market is large enough to support your business, you will want to learn what your customers have in common and how their likes and dislikes will affect your market, so as to serve them better and remain competitive.

**Gathering Sufficient Capital.** All too often, entrepreneurs try to start a business without obtaining sufficient start-up capital. The lifeblood of any young business is cash; starting on a

# ISSUES IN SMALL BUSINESS

## LIGHTING THE FUSE OF INNOVATION

While small businesses develop and commercialize much innovation, another source of initial innovations is primary research—which small businesses may still develop without their own research and development. Some sources of innovations include

- **Global Innovation Initiative**—This program provides grants to university consortia focusing on science, technology, engineering, and mathematics, or STEM-related issues of global significance that foster cutting-edge multinational research and strengthen institutional international partnerships.
- **America Makes**—America Makes supports and facilitates research collaboration among leaders from business, academia, nonprofit organizations, and government. Its research efforts are aimed at enabling technology transition from universities and government (i.e., basic research) through to commercialization.
- **National Network for Manufacturing Innovation**—NNMI is a network of research institutes that focuses on developing and commercializing manufacturing technologies through public–private partnerships between U.S. industry, universities, and federal

government agencies. The network currently consists of nine institutes:

1. National Additive Manufacturing Innovation Institute
2. Digital Manufacturing and Design Innovation Institute
3. Lightweight Materials Manufacturing Innovation Institute
4. Next Generation Power Electronics Institute
5. Institute for Advanced Composites Manufacturing Innovation
6. American Institute for Manufacturing Integrated Photonics
7. Flexible Hybrid Electronics Manufacturing Innovation Institute
8. Advanced Functional Fabrics of America
9. Smart Manufacturing Innovation Institute

*Sources:* Institute for International Education, Global Innovation Initiative, accessed August 28, 2018, <https://www.iie.org/en/Programs/Global-Innovation-Initiative/About>; America Makes, accessed August 28, 2018, <https://www.americamakes.us>; National Network for Manufacturing Innovation, accessed August 28, 2018, <https://www.energy.gov/eere/amo/national-network-manufacturing-innovation>.

financial shoestring hurts your chances of success. Profit is the ultimate goal, but inadequate cash flow cuts off the blood supply (see Chapter 8).

You may need to be creative in finding start-up capital. A second mortgage, loans from friends or relatives, a line of credit from a bank or credit union, or a combination of sources may be sufficient. Thorough planning will give you the best estimate of how much money you will need. Once you have made your best estimate, double it—or at least get access to more capital. You'll probably need it.

**Finding and Keeping Effective Employees.** Maintaining a capable workforce is a never-ending task for small businesses. Frequently, small business owners get caught up in the urgency to “fill positions with warm bodies” without spending enough time on the selection process. You should hire, train, and motivate your employees before opening for business (see Chapter 15).

Once established, you must understand that your most valuable assets walk out the door at closing time. In other words, your employees are your most valuable assets. It is their skill, knowledge, and information that make your business successful. These intangible assets are called **intellectual capital**.

**Getting Accurate Information.** Managers at any organization will tell you how difficult it is to make a decision before acquiring all the relevant information. This difficulty is compounded for the aspiring small business owner, who does not yet possess the expertise or experience needed to oversee every functional area of the business, from accounting to sales. Consult a variety of sources of information, from self-help books in your local library to

**intellectual capital**  
The valuable skills and knowledge that employees of a business possess.

experts in your nearest Small Business Development Center. A more accurate picture can be drawn if you consider several vantage points.

## Concept Check Questions

1. Why are small businesses more likely than large businesses to be innovative?
2. Explain the term *creative destruction*.
3. Is *creative destruction* just another economic theory for the foundation of capitalism? Build a case supporting your answer.
4. How can being close to your customers give you a competitive advantage?
5. How would the computer industry be different today if there were no businesses with fewer than 500 employees? Would personal computers exist?
6. This chapter discusses the evolution of small business in the U.S. economy. On the heels of the rapid growth in the popularity of internet businesses in the late 1990s, the ensuing bust in 2000, and the current trend away from online and toward mobile connectivity, what will be the next stage in small business's evolution? Is the internet just another business tool, or will it re-create the way business is done?

## Concept Module 1.5: Understanding the Risks of Small Business Ownership

- LO 1.6: Name the most common causes of small business failure.

The decision to start your own business should be made with a full understanding of the risks involved. If you go in with both eyes open, you will be able to anticipate problems, reduce the possibility of loss, and increase your chances of success. The prospect of failure should serve as a warning to you. Many new businesses do not get past their second or third years. Running

a small business involves much more than simply getting an idea, hanging out a sign, and opening for business the next day. You need a vision, resources, and a plan to take advantage of the opportunity that exists.

“Running a small business involves much more than simply getting an idea, hanging out a sign, and opening for business the next day.”

### What Is Business Failure?

Even though business owners launch their ventures with the best of intentions and work long, hard hours, some businesses inevitably fail. Dun & Bradstreet, a financial research firm, defines a business failure as a business that closes as a result of either (1) actions such as bankruptcy, foreclosure, or voluntary withdrawal from the business *with a financial loss to a creditor*; or (2) a court action such as receivership (taken over involuntarily) or reorganization (receiving protection from creditors).<sup>31</sup>

How long do start-up businesses typically last? Of the businesses started in 2015, 79.9 percent survived 2016. About 50 percent see their fifth birthday. About one-third of establishments survive 10 years or longer.<sup>32</sup>

“Only those who dare to fail miserably can achieve greatly.” —Robert Kennedy

### Causes of Business Failure

The rates of business failure vary greatly by industry and are affected by factors such as type of ownership, size of the business, and expertise of the owner. The causes of business failure are many and complex; however, the most common causes are inadequate management and financing (see Figure 1.5).

Although financial problems are listed as the most common cause of business failure, consider management's role in controlling them. Could business failure due to industry weakness

be linked to poor management? Yes, if the owner tried to enter an industry or market with no room for another competitor or responded only slowly to industry changes. High operating expenses and insufficient profit margins also reflect ineffective management. Finally, business failure due to insufficient capital suggests inexperienced management.

**Inadequate Management.** Business management is the efficient and effective use of resources. For small business owners, management skills are especially desirable—and often especially difficult to obtain. Lack of experience is one of their most pressing problems. Small business owners must be generalists; they do not have the luxury of specialized management. On the one hand, they may not be able to afford to hire the full-time experts who could help avert costly mistakes. On the other hand, their limited resources will not permit them to make many mistakes and stay in business. As a small business manager, you will probably have to make decisions in areas in which you have little expertise.

Small business managers are generally correct in pointing to internal factors as the reason for the failure of their businesses.<sup>33</sup> Figure 1.6 shows data on reasons small business founders gave for failures.<sup>34</sup> Internal problems are those more directly under the control of the manager, such as adequate capital, cash flow, facilities/equipment inventory control, human resources, leadership, organizational structure, and accounting systems.

The manager of a small business must be a leader, a planner, and a worker. You may be a “top gun” in sales, but that skill could work against you. You might be tempted to concentrate on sales while ignoring other equally important areas of the business, such as record keeping, inventory, and customer service.

**No Website and No Social Media Presence.** In the U.S. alone, about 88.5 percent of the population are online regularly and census numbers show that percentage continues to grow. A fact of business life in the 21st century is that if your customers (individual consumers or other businesses) cannot find you online or on social media the chances of them connecting with you are about zero.



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▼ FIGURE 1.5

### Causes of Business Failure

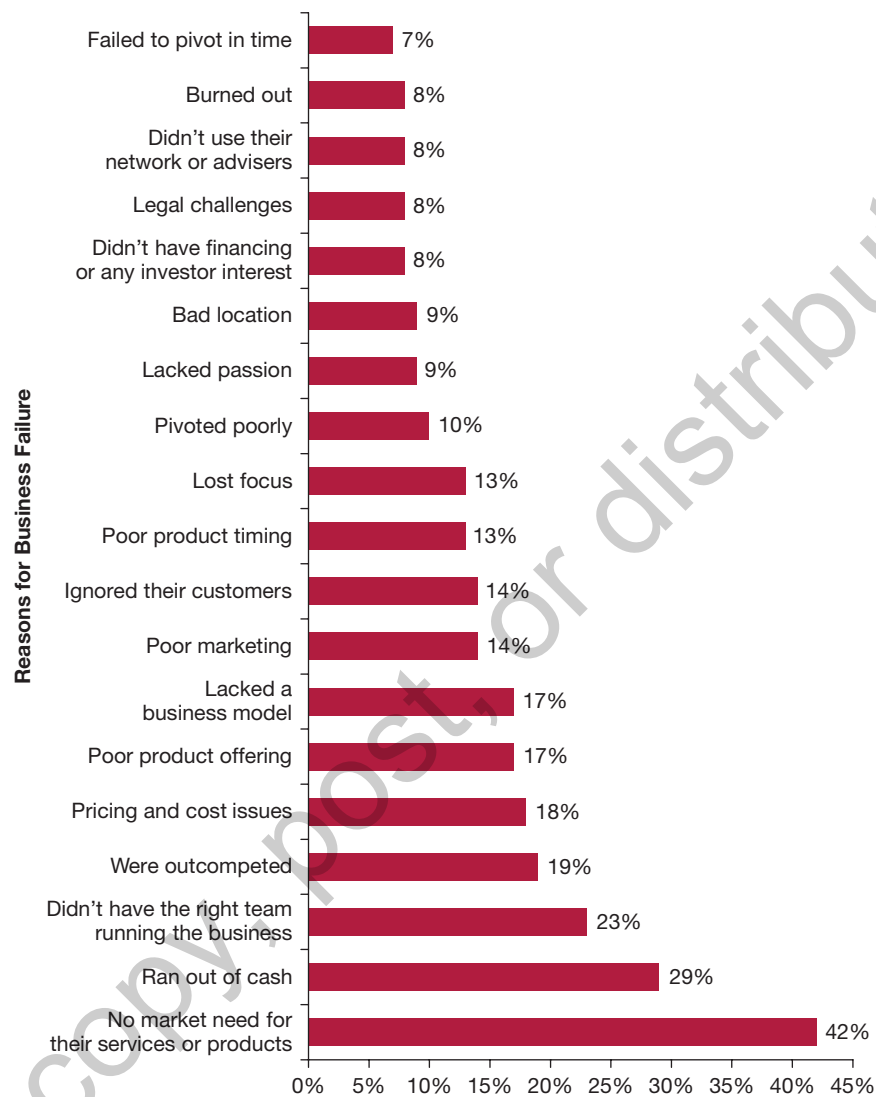


Source: Based on information from “Why Do Small Businesses Fail?” National Federation of Independent Business, March 20, 2017, [www.nfib.com/content/resources/start-a-business/why-do-small-businesses-fail](http://www.nfib.com/content/resources/start-a-business/why-do-small-businesses-fail).



▼ FIGURE 1.6

### Causes of Small Business Failure Vary Widely



Source: Georgia McIntyre "What Percentage of Small Business Fail? (And Other Similar Stats You Need to Know)," Fundera Ledger, August 29, 2017, [www.fundera.com/blog/what-percentage-of-small-businesses-fail](http://www.fundera.com/blog/what-percentage-of-small-businesses-fail)

**Inadequate Financing.** Business failure due to inadequate financing can be caused by improper managerial control as well as shortage of capital. On the one hand, if you don't have adequate funds to begin with, you will not be able to afford the facilities or personnel you need to start up the business correctly. On the other hand, if you do possess adequate capital but do not manage your resources wisely, you may be unable to maintain adequate inventory or keep the balance needed to run the business.

There are a lot of ways to fail in business (Figure 1.6). You can extend too much credit. You can fail to plan for the future or not have strategic direction. You can overinvest in fixed assets or hire the wrong people. Identifying mistakes that can be made is merely one component of the problem. Figuring out how to avoid them is the hard part.<sup>35</sup>

### Business Termination versus Failure

There is a difference between a **business termination** and a **business failure**. A *termination* occurs when a business no longer exists for any reason. A *failure* occurs when a business closes

#### business termination

When a business ceases operation for any reason.

#### business failure

When a business closes with a financial loss to a creditor.

with a financial loss to a creditor. Reasons for a termination abound. The owner may have an opportunity to sell her business to someone else for a healthy profit, or be ready to move on to a new business or to retire, or she may have simply lost interest in the business. The market for the business's product may have changed or become saturated. Perhaps the owner has decided it would be more appealing to work for someone else. In other cases, businesses may change form. A partnership may be restructured as a corporation, or a business may move to a new location. Businesses that undergo such changes are considered terminated even though they continue in another form.

## Mistakes Leading to Business Failure

No one likes to think about failing, yet many small business owners invite failure by ignoring basic rules for success. One of the most common mistakes is to neglect to plan for the future because planning seems too hard or time-consuming. Planning what you want to do with your business, where you want it to go, and how you're going to get there are prerequisites for a sound business. Of course, that doesn't mean you can't change your plans as circumstances dictate. Your plan should provide a road map for your business, showing you both the expressways and the scenic routes—and the detours.

Another common mistake is failing to understand the commitment and hard work that are required for turning a business into a success. Having to work long hours and do things you don't enjoy because no one else is available to do them are part and parcel of owning a small business. Yet, when you have the freedom of being your own boss, the hard work and long hours often don't seem so demanding!

Still another mistake that small business owners make, particularly with rapidly growing businesses, is not hiring additional employees soon enough or not using existing employees effectively. There comes a point in the growth of a business when it is no longer possible for the manager to do it all, but she resists delegation in the belief that it means she is giving up control. It is important to recognize that delegating tasks to others isn't giving up control—it's giving up the execution of details.

The last type of mistake discussed here involves finances. Inaccurate estimates of cash flow and capital requirements can swamp a business quickly. Figuring the correct amount of money needed for starting a business is a tough balancing act: Asking for too little may hinder growth and actually jeopardize survival, whereas asking for too much might cause lenders or investors to hesitate. An important rule to remember in terms of arranging financing or calculating cash-flow projections is to figure the unexpected into your financial plans. In this way, you can have more of a cushion to fall back on if things don't go exactly according to plan. After all, without the right amount of capital, it's impossible to succeed.<sup>36</sup>

“Inaccurate estimates of cash flow and capital requirements can swamp a business quickly.”

Business failure, then, is a serious reality. How can a small business owner avoid it? Difficult changes may be needed, and change requires leaders to overcome all sorts of human dynamics, like inertia, tradition, and head-in-the-sand hoping that things will get better. Strategic moments require courage, or at least a lack of sentimentality, which is rare. It is in these moments that the best leaders find a mirror and ask themselves the defining question the late, great Peter Drucker posed nearly 40 years ago: “If you weren't already in your business, would you enter it today?” If the answer is no, Drucker said, you need to face a second tough question: “What are you going to do about it?” Every leader should heed this good advice and, if need be, follow it through to its conclusion, whether that will be to fix, sell, or close the business.<sup>37</sup>

## Failure Rate Controversy

Almost everyone has heard the story about the supposedly high rate of failure for small businesses. “Did you know that 90 percent of all new businesses fail within one year?” the story usually begins, as if to confirm one's worst fears about business ownership. For educators

▼ TABLE 1.2

**U.S. Business Start-Ups, Closures, and Bankruptcies**

	Start-Ups	Closures	Bankruptcies
2014	403,902	391,553	26,983
2010	385,358	416,642	89,402
2005	644,122	565,745	39,201
2000	574,300	542,831	35,472
1995	594,369	497,246	50,516
1990	584,892	531,892	63,912

and business people, this piece of modern folklore is known as “the myth that would not die.” Actually, only about 20 percent of all new businesses are forced to close their doors with a loss to creditors.<sup>38</sup> The rest either close voluntarily or are still in business. Over the past several decades, the number of new businesses that have opened has approached or exceeded the number that have closed. Table 1.2 shows a net increase in business formations (more businesses were started than stopped operations).

Sometimes researchers include business terminations in their failure-rate calculations, resulting in an artificially high number of failures. Economic consultant David Birch describes the misinterpretation of economic data as “like being at the end of a whisper chain. It’s a myth everyone agrees to.”<sup>39</sup> Fortunately for small business owners, this high number of failures is indeed a myth, not a fact.

Analysis of business closure data as part of the recent U.S. Census Bureau’s Characteristics of Business Owners (CBO) reveals some interesting findings—including the finding that about one-third of closed businesses were successful at the time of their closure. The study represented a universe of about 17 million businesses with a sample of 78,147 businesses. It was one of the first major studies to include “closing while successful” as a possible outcome. That option could well challenge the failure myth, or the view that business closure is always negative. Entrepreneurs certainly devise exit strategies to close or sell a business before losses accumulate or to move on to other opportunities.<sup>40</sup>

Starting a business does involve risk, but the assumption of risk is part of life. In 2016, the divorce rate was 3.4 per 1,000 population.<sup>41</sup> The six-year graduation rate of bachelor’s degree students in the United States is 59 percent (that is, 59 percent of first-time, full-time undergraduate students who started in 2009 or later had completed a bachelor’s degree).<sup>42</sup> Would you decide not to get married because the divorce rate is too high? Were you afraid to go to college because of the dropout rate? The point to remember is that if you have a clear vision, know your product and your market, and devote the time and effort needed, your small business, like many others, can succeed.

**Concept Check Questions**

1. The text compares the failure rate for small businesses with the divorce rate in marriage and the student failure rate in college. Are these fair comparisons?
2. Describe four causes of small business failure. How does the quality of management relate to each of these causes?

3. Describe the techniques that a business with which you are familiar has used to prevent its failure.
4. Predict the future of small business. In what industries will it be most involved? What trends do you foresee? Will the failure rate go up or down? Will the importance of small business increase or decrease by the year 2020?

## CHAPTER REVIEW

### SUMMARY ►►

#### LO 1.1 Describe the characteristics of small business.

Small businesses include a wide variety of business types that are independently owned, operated, and financed. Although specific size definitions exist for each type of business, manufacturers with fewer than 500 employees, wholesalers with fewer than 100 employees, and retailers or services with annual revenues less than \$3.5 million are typically considered small. By itself, each individual small business has relatively little impact in its industry.

#### LO 1.2 Explain the role of small business in the U.S. economy.

Small businesses provided the economic foundation on which the U.S. economy was built. Today these businesses are creating new jobs even as large businesses continue eliminating jobs. Small businesses are more flexible than large ones in the products and services they offer. Most real product innovations come from small businesses.

#### LO 1.3 Discuss the importance of diversity in the marketplace and the workplace.

As the population becomes more diverse, the owners and employees of small businesses are likewise becoming more diverse. Businesses owned by women and minorities are growing at a faster rate than the overall rate of business growth. Diversity is important in small business because a wide range of viewpoints and personal backgrounds can, at the least, improve problem solving.

#### LO 1.4 Identify some of the opportunities available to small businesses.

Small and large businesses need each other to survive—they have a symbiotic relationship. This relationship provides opportunities to small businesses in that they can supply needed parts to large manufacturers and can distribute manufactured goods. Moreover, small businesses often pick up functions that large businesses outsource. Other opportunities exist for small businesses where they enjoy the advantage of being able to profitably serve smaller niches than can their larger counterparts. For all these reasons, small businesses are rapidly becoming important players in international trade.

#### LO 1.5 Suggest ways to court success in a small business venture.

To prevent your small business from becoming another casualty noted in business failure statistics, you must begin with a clearly defined competitive advantage. You must offer a product or service that people want and are willing to buy. You must do something substantially better than your competition does it. You must remain flexible and innovative, stay close to your customers, and strive for quality.

#### LO 1.6 Name the most common causes of small business failure.

Ineffective and inefficient management, which shows up in many ways, is the number one cause of business failure. Inadequate financing, industry weakness, inexperience, and neglect are other major causes.

### KEY TERMS ►►

business failure 18

business termination 18

competitive advantage 12

creative destruction 13

economy of scale 8

intellectual capital 15


marketing concept 8

service sector 8

small business 4

## STUDENT STUDY SITE ►►

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## EXPERIENTIAL LEARNING ACTIVITIES ►►

### 1.1: Competitive Advantage and Advantages/Disadvantages

**LO 1.4: Identify some of the opportunities available to small businesses.**

**LO 1.5: Suggest ways to court success in a small business venture.**

Instructions:

Students should form into groups of 3–5. Read the following scenario in your group, then, as a group, answer the questions that follow. Be prepared to write your answers on the white board and report your answers to the rest of the class.

Your best friend from high school has just texted you with his great new idea. He is going to begin a yard care business starting this October and he wants to hire you part-time to work for him. Your best friend knows little about running a business and also little about yard work, except what he has learned from doing yard work for his parents. Since you are currently taking a small business class, you know there are some questions your friend needs to consider.

1. What could be a competitive advantage your friend could bring to his business, taking into consideration there are already many successful yard care businesses in the area?
2. In order of importance, rank three reasons why your friend may be excited to have his own small business.
3. In order of importance, rank three challenges your friend will need to overcome in order for his small business to succeed.

After all groups have shared, what were the most frequently cited reasons for someone wanting to begin their own small business. What were the most frequently cited challenges that a small business owner must overcome?

### 1.2: Creative Destruction

**LO 1.4: Identify some of the opportunities available to small businesses.**

Take out a piece of paper and write down two plausible, yet creative, innovation ideas for each of the following categories in no more than 10 minutes.

- Product innovation
- Service innovation
- Process innovation
- Management innovation

After 10 minutes, form into groups of 3–5. In each group choose the best innovation from each category. Once the groups have chosen their best idea in each category, each group will write their innovations on the board and briefly explain the ideas.

After all groups have reported out their innovations, the class as a whole will choose the three best ideas for each category.

## CHAPTER CLOSING CASE ►►

### Small Business Lessons from the Movies

Movies are magical. They take us to new places, they spark our imagination, and they entertain us. Lessons from movies are open to interpretation that may differ from what the filmmaker ever intended. Steven Spielberg and George Lucas may have

never intended to teach people how to run businesses, but let's step back, open our minds, and consider what we have seen that may solve problems in business. With some thought, we can come up with stories of communication, branding, ethics,

customer service, and leadership applicable to starting and running a small business.

Here are some examples to get you started. Popcorn please . . .

*It's a Wonderful Life* (1946) OK, so we equate this one with Christmas, but consider the lesson of leading by example that director Frank Capra shows. It comes down to a confrontation between two businesspeople—Mr. Potter (Lionel Barrymore) wants to turn Bedford Falls into Pottersville, while George Bailey (James Stewart) puts his customers, employees, and family interest first by taking personal responsibility.

*The Godfather, Parts I and II* (1972, 1974) Not the most savory of mission statements, but these movies are about family business. There are lessons about loyalty and consequences. Many quotes are still used often in the business world—“go to the mattresses,” “I’m gonna make him an offer he can’t refuse,” and “My father taught me many things . . . keep your friends close, but your enemies closer.”

*Steve Jobs* (2015) Several movies have been made about the Apple founder, but this one doesn’t flinch in covering successes and failures. The story of Steve Jobs is both profoundly inspiring and a bit scary when one sees what happens when a founder is the very soul of the company created.

*Jerry Maguire* (1996) After being jettisoned from a large firm, the title character (Tom Cruise) becomes a reluctant entrepreneur that brilliantly captures the manic-depressive roller-coaster ride of starting a business. With one employee and one client, Maguire literally has all his eggs in one basket to show that fewer clients and more personal attention are a good business strategy.

*Wall Street* (1987) This study of values compares and contrasts the differences between a father and a son. The small business lesson can be that “there are no shortcuts” in life or business. Just because you can visualize where you want to be does not mean that you can get there without paying dues.

*A League of Their Own* (1992) Just the tagline for the movie sets it up with a small business lesson: “To achieve the incredible you

have to attempt the impossible.” Memorable quotes include “There’s no crying in baseball,” and “Of course this is hard.” No matter how it appears—*every* business is hard. Don’t complain.

*The Pursuit of Happyness* (2006) This biographical drama is based on entrepreneur Chris Gardner’s one-year struggle with homelessness in the 1980s. Raising his son on the streets, we see his fierce commitment to his dream and duty to his son. Best quote? “Don’t ever let somebody tell you . . . you can’t do something. Not even me. . . . You got a dream . . . you gotta protect it. People can’t do somethin’ themselves, they wanna tell you ‘you can’t do it.’ If you want somethin’, go get it. Period.”

*Tucker: The Man and His Dream* (1988) I, your author, admit personal bias on this one—I believe this is the *best business movie ever!* The best part is that the whole story is true. It’s about an inventor who sets out to revolutionize the auto industry during World War II. It’s got it all—business started in a barn, naysayers, faithful followers, time-crunched prototypes, creative technology advances, giant corporate adversaries, and failure. If you are in a class on small business/entrepreneurship—watch this one.

You get the idea by now and yes, some of these were made before most students were born, but they are available as rentals. Some other contenders to consider include

*Apollo 13* (1995)

*Dead Poets Society* (1989)

*Elizabeth* (1998)

*Glengarry Glen Ross* (1992)

*Norma Rae* (1979)

*Office Space* (1999)

*One Flew over the Cuckoo’s Nest* (1975)

*Twelve Angry Men* (1957)

*Twelve O’Clock High* (1949)

## Questions

1. What are your personal screen inspirations? What lessons do these or other movies provide in running a small business?
2. In addition to the movies cited in this closing case, think of other titles for business lessons such as *Risky Business*, *Pirates of Silicon Valley*, and *Monsters, Inc.* What lessons do they provide?
3. What movies portray leaders who think creatively, who keep their heads, who manage communication, and, as for failure, well, that’s just not an option (a line from *Apollo 13*)?
4. Bearing in mind that the intent of movies is artistic, rather than educational, what movie lessons do you think illustrate the opposite of what a manager should do or say?

Sources: Lori Grant, “The 10 Best Business Movies,” May 21, 2009, [www.smartlemming.com/2009/05/the-10-best-business-movies](http://www.smartlemming.com/2009/05/the-10-best-business-movies); Mike Hofman, “Everything I Know about Leadership, I Learned from the Movies,” *Inc.*, March 2000, 58–70; Leigh Buchanan, “Cinema for the Enterprising,” *Inc.*, February 2007, 75–77. For more on this topic, see a recent book by Kevin Coupe and Michael Sansolo titled *The Big Picture: Essential Business Lessons from the Movies* (2010) from Brigantine Media.