

## Chapter 3 :: Business Management and Leadership

### Section 3.1 ~ Small Business Management

#### Jump Start

Brianna and Brittney started their business because they liked to bake cookies and they were good at it. They liked being independent and did not mind working long hours. Before starting the business, Brittney attended a small business owner's seminar conducted by the Small Business Administration, and Brianna worked in a supermarket's baked goods department, which gave her insight into customers' likes and dislikes. What they failed to do before starting their business, however, was to write a business plan. Although their business has been successful, they now want to grow it. But without a business plan, they have no direction on where they want the business to go and how to get there. With Emilio as their partner, they decide it is time to prepare a business plan. How should they begin the process of writing their business plan?

#### Small Businesses

A **small business** is an independent business with fewer than 500 employees. The greatest percentage of businesses in the United States are small businesses, and they employ half of all private sector employees. In a recent year, there were approximately 28 million U.S. small businesses. Small businesses play a vital role in our economy.

#### Meeting Customer Needs

Small businesses often serve customers when the number of products needed in a market is too small for a larger business to produce or sell profitably. The requirements of a market might also be so specialized that a small business can handle the need more efficiently. It is often possible for a small business to adapt its business to meet the precise needs of customers because its organization has the flexibility to adjust more easily to meet individual needs.

Small businesses generally serve fewer customers and have more personal contact with customers than do larger companies. They also tend to distribute and service their own products. Small businesses usually get direct information from their customers about their likes and dislikes.

Small businesses are especially suited to providing unique services for customers. They may plan a wedding or design a customized sound system for a home. Small business representatives tend to take special interest in serving their customers.

A big business has a clear advantage when a large number of customers are willing to buy standard products and services and prefer low-cost, efficient delivery. Small businesses gain the advantage when customers have unique needs, want more individual attention, and are willing to pay more for the product or service to obtain what they really want. Customers generally see small businesses as really caring about and providing what they want.

## Starting a Small Business

Have you ever thought about going into business for yourself? Many people have, but not many actually follow through on their desire. Before starting a business, you need to determine if you possess the characteristics needed to succeed.

**Characteristics of Small Business Owners** Those who start businesses find that they work long hours and have many management tasks to perform. However, they are willing to do this since it allows them to perform the kind of work that they enjoy and to be in charge of their own business.

Characteristics of men and women who are successful small business owners have been studied and analyzed. These studies have found that successful small business owners tend to be independent, persistent, and self-motivated. They like doing things themselves, they stay with a task until it is completed, and they do not need someone to supervise them to get a job completed.

Successful owners are also energetic and willing to do what it takes to make their own business a success. They must also be risk takers and cannot be afraid to make mistakes. Mistakes should be viewed as learning experiences.

**Ideas** New small business ideas can come from many sources. A common source is a hobby or an activity the owner enjoys doing. Personal interests and related business experience can both be important. Ideas can come from magazines, websites, and other media. It is important to conduct research to decide if the hobby or activity can be made into a profitable business. Acting on an idea is the next important step.

Finding the right location is a very important consideration. If you want your customers to come to you, your business should be easy to find. If you will be producing a product, you should be near the source of materials and shipping points. Timing is another important factor. If your product or service is seasonal, you will need to begin your business at a favorable time of the year.

**Preparation and Research** Putting your idea into action requires preparation and research. Preparation includes obtaining information about your product or service and your competition. Time spent at the beginning gathering information from books, seminars, magazines, and other businesses will help you avoid problems later. It is good to study as much information as possible to help assure that decisions are based on the best data available.

Information gathered should include potential customers, competition, relevant government regulations, and local ordinances and requirements. Sources of information include the Internet, government offices, local libraries, and the Small Business Administration.

The **Small Business Administration (SBA)** is a government agency that provides services and helpful publications to small businesses. The SBA works through small business assistance centers, often in cooperation with local colleges and universities. The SBA provides special assistance for minority- owned small businesses. Another source of help is

the Service Corps of Retired Executives (SCORE), an SBA-sponsored group that offers free advice and consultation to small business owners from retired executives with a wide array of business backgrounds.

### Small Business Problems

The failure rate for small businesses is quite high. The reasons for failure are varied, but the following are the most common.

- Not keeping adequate records
  - Not having enough start-up money
  - Having a poor location
  - Lacking management experience or experience with the type of business being managed
  - Not controlling business expenses or managing credit to customers
  - Failing to have a business plan
- These reasons for failure can be avoided or overcome by careful management and thorough education. The development of a business plan is a major step in the direction of helping to assure a successful small business.

### The Business Plan

When successful small businesses are compared to those that fail, one thing stands out—the successful businesses developed and followed a business plan. All major activities and management functions are included in the plan. Key elements of a business plan are shown in the box below.

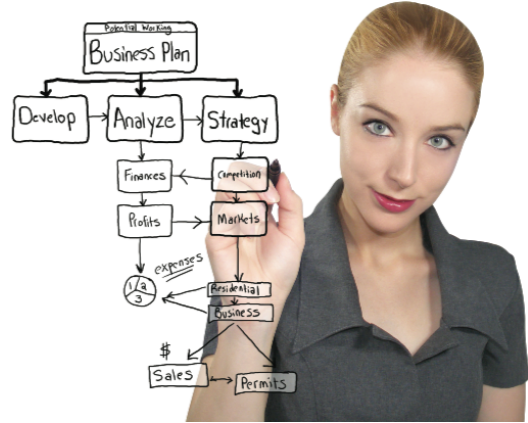
<b>KEY ELEMENTS OF A BUSINESS PLAN</b>	
<p><b>Description of the Business</b></p> <ul style="list-style-type: none"> <li>• the business idea</li> <li>• major products and services</li> <li>• ownership structure</li> <li>• owner's qualifications</li> <li>• strengths and weaknesses</li> <li>• long- and short-term goals</li> </ul>	<p><b>Customer Analysis</b></p> <ul style="list-style-type: none"> <li>• description of customers</li> <li>• location, number, and resources of customers</li> <li>• sales forecasts</li> </ul>
<p><b>Description of the Competition</b></p> <ul style="list-style-type: none"> <li>• industry characteristics</li> <li>• condition of the economy</li> <li>• strengths and weaknesses of competitors</li> </ul>	<p><b>Operations Plan</b></p> <ul style="list-style-type: none"> <li>• organization of the company</li> <li>• description of major operations</li> <li>• analysis of resources needed</li> <li>• human resource plans</li> </ul>
<p><b>Marketing Plan</b></p> <ul style="list-style-type: none"> <li>• description of marketing activities</li> <li>• description of resources needed</li> <li>• schedule of marketing activities</li> </ul>	<p><b>Financial Plan</b></p> <ul style="list-style-type: none"> <li>• start-up costs</li> <li>• long- and short-term financial needs</li> <li>• sources of financing</li> <li>• budgets and financial statements</li> </ul>

## 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 activities. There are key features that include a general description of the company, the owner's qualifications, a description of the product or service, an analysis of the market (demand, customers, and competition), and a financial plan.

Most business plans are developed for one year and updated the next year. The business plan is especially important if the business owner needs help from others and is usually required if financing is needed.

By developing a business plan, the owner is forced to think about important activities, the time they take, and their cost. Potential problems may be identified. The plan helps keep the business on its mission to success. It can be used as a tool for managing the business.



## Developing a Business Plan

The business owner is responsible for developing the business plan. A well-developed plan will lay out an idea, require an owner to analyze her or his concept, and make decisions about key business activities such as production, marketing, staffing, and financing.

Some owners may hire someone to write the plan, while others will get help from a local bank or the Small Business Administration. In either case, the owner must be familiar with all of the information and make the major decisions for the plan.

After outlining the key elements of the business plan, additional information that is needed must be gathered and reviewed. Reviewing the information is important, and the owner might do this or may get help in doing it. A bank or local office of the SBA can provide assistance. Any decisions made based on the review, however, should be made by the small business owner. The owner should also review and study other business plans and study information on the activities and performance of similar businesses, especially those that could be potential competitors.

The owner should also develop strategic alternatives, including plans for adjusting production, marketing, staffing, and financing if needed. The owner then needs to select the best choices from the alternatives.

Each section of the business plan must be written out in a careful and detailed manner. Before the plan is completed and ready to be used, it is a good idea for the owner to have at least one business professional review the plan and offer advice about its strengths and weaknesses. When the business plan is complete, the owner will have a management plan ready to guide his or her business to success.

### Think Critically

1. Which characteristics of a successful small business owner do you think are most important to the success of the business? Why?
2. Why do you think hobbies or activities someone likes to do are often the beginning of a small business enterprise?
3. Many people make careless and uninformed decisions, refusing to take the time they need to make good decisions. What do you think are some reasons why people do this?
4. There is no such thing as a perfect decision, only a very good decision based on information available at the time of the decision. What kind of attitude is best to have toward a decision once it is made?