

Chapter 5

Entrepreneurship and Small Business

Learning Objectives

After completing this chapter, you'll be able to:

1. **Describe** an entrepreneurship and a small business.
2. **List** the advantages and disadvantages of an entrepreneurship.
3. **Recognize** the advantages and disadvantages of a small business.
4. **Explain** why small businesses may fail.

Why It's Important

Entrepreneurships and small businesses bring vital energy and innovation to the economy. The risks involved energize entrepreneurs and small business owners to become successful.

Key Words

entrepreneurship
virtual business
or dot-com company
entrepreneur
risk taker
profit
small business

BusinessWeek Feature Story



Paint by Numbers

Gamblin Artists Colors Paints in Popular Hues. Martha and Robert Gamblin's work hangs in some of the world's top art museums. But don't bother looking for their names on gallery walls.

The Gamblins toil behind the scenes, manufacturing some of the world's finest oil paints. Each year, Gamblin Artists Colors in Portland,

Oreg., ships more than 500,000 tubes and cans of paint in some 150 colors to artists and supply stores worldwide. Leading painters such as David Hockney and Chuck Close swear by them. "They make colors other companies just don't," says Wolf Kahn, a West Brattleboro (Vt.) landscape painter whose work is on display in museums nationwide.

Source: Excerpted with permission from "Paint by Numbers," *Frontier*, November 6, 2000.

An Extension Activity

Color is a science. Researchers have studied everything from how color affects brain activity to energy consumption. Study your classroom. Find out if the colors are "brain compatible."

BUSINESS
Online 
The Full Story

To learn more about Gamblin Artists Colors, visit the *Introduction to BusinessWeb* site at www.introbus.glencoe.com, and click on *BusinessWeek* Feature Story, Chapter 5.

The Visionaries Behind New Businesses

Imagine you inherit \$2,000 and want to start a graphic design business. With the money, you purchase QuarkXpress® and Adobe Illustrator®. Next you design a business card and work hard to bring in business. Three years later a local business magazine awards you Young Entrepreneur of the Year. The award is for creating fantastic designs for the breast cancer awareness campaign. The public responded to its attractive and effective message. Your dream, hard work, and financial investment are paying off.

The Ins and Outs of an Entrepreneurship

An **entrepreneurship** is a business started by someone who notices a need for a product or service. Entrepreneurship soared in the late 1990s as entrepreneurs took their business ideas online. The Internet became the arena to sell products and services.

A **virtual business** or a **dot-com company** is a business that operates on the Internet. A dot-com company may exist only online or it may be in addition to a company's actual storefront.

Figure 5.1

ARE YOU ORIGINAL?

Take this quiz and see if you would be a good entrepreneur.

Below are traits of an entrepreneur. Rate yourself by choosing a number that best describes you. At the end you'll add up your points to see how you fared (1 is lowest, 5 is highest).

| | | | | | |
|---------------------------------------|---|---|---|---|---|
| Need for achievement | 1 | 2 | 3 | 4 | 5 |
| Energy level | 1 | 2 | 3 | 4 | 5 |
| Willingness to take risks | 1 | 2 | 3 | 4 | 5 |
| Determination | 1 | 2 | 3 | 4 | 5 |
| Self-confidence | 1 | 2 | 3 | 4 | 5 |
| Willingness to work hard | 1 | 2 | 3 | 4 | 5 |
| Desire to "control your own destiny" | 1 | 2 | 3 | 4 | 5 |
| Enthusiasm for projects you undertake | 1 | 2 | 3 | 4 | 5 |

Rate your score:

- 35–40 points = true entrepreneur
- 30–35 = willing to take risks and try something new
- 25 and under = you take fewer risks

In July 1995 Amazon.com opened its virtual doors to the world. The company wanted to change book buying over the Internet. Nearly 29 million customers later, the online e-tailer forges ahead in high-tech shopping.

It may take Amazon.com ten years before it turns a profit but the company's lead man, Jeff Bezos, accepts the challenge. What would you expect from an entrepreneur? An **entrepreneur** is a person who recognizes a business opportunity and organizes, manages, and assumes the risks of a business enterprise, with the intent of increasing the market value of the business. Every year thousands of entrepreneurs start businesses. Many entrepreneurs establish very successful companies that remain small. Many of these businesses will fail within a few years of opening. Others will go on to become giant companies. Figure 5.1 is a quiz you can take to see if you would be a good entrepreneur. You'll rate yourself based upon traits that best describe you.

Advantages of an Entrepreneurship

Entrepreneurs are take-charge, self-directed people. They want to work for themselves. Often an entrepreneur is a **risk taker**, or someone who likes to take risks.

Satisfaction From Taking a Risk and Becoming a Success. Miranda wasn't the kind of person who could sit at a desk all day. She decided this last summer when she was an administrative assistant at a news organization. Every day couriers came into her office with packages for pick up and delivery. They were constantly on the move and she liked that. She decided to leave her position and take the risk of making enough money with her own courier service. Miranda found satisfaction in taking a risk and becoming a success.

Showing Expertise and Skills. Raphael worked as an assistant restaurant manager for three years. He decided it was time to leave that restaurant and open his own establishment. One year later he opened a charming bistro in the hip, arty part of the city. The restaurant's quick success labeled him the hottest entrepreneur in the city. Starting his own business gave Raphael a way to demonstrate his expertise, skills, and self-determination. His experiences as an assistant manager gave him the skills to start his own business.

Working From Home. Briana is among the 20 percent of small business owners running a home-based business. She loves needlework. Instead of working for a large company, she started Briana's Gifts. She sells her home-made gifts at trade shows and conferences. Briana, like many entrepreneurs,

Real-World Application

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THE BIZ BEHIND BOZART

In the early '90s, the art market slowed down. Larry Mangel, an art dealer, decided to change his career focus and open his own business, Bozart Toys.

What makes Larry Mangel an entrepreneur?

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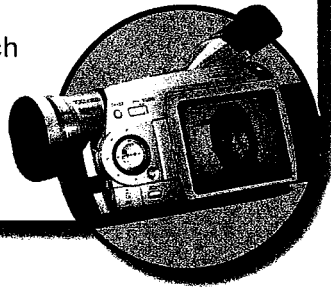
Technology Toolkit

It's a Digital World

Entrepreneur Lane Wyrich started a multimedia production company, Xap Interactive. His company uses digital video and computer technology to create videos and movies. Digital recording marries image and sound into single pieces of data. Each piece of data is a complete image or a specific sound. Wyrich uses a computer to edit the digital data (or movie footage) to create the finished product.

Critical Thinking

Why do you think Wyrich uses digital video and computer technology?



prefers to set her own flexible schedule instead of keeping a big company's mandatory workweek.

Gaining Profit. Joseph started his own network consulting company. It was important to him that he received all the profits from his hard work. **Profit** is the money left over after a business has paid all costs of producing its goods or services. In fact, profit is one reason that many entrepreneurs start a business.

Disadvantages of an Entrepreneurship

Entrepreneurs know they are taking a risk when starting a business, and are aware that risk may result in failure. Success means working hard. A successful venture doesn't come easy to an entrepreneur.

Total Responsibility for the Business. Do you remember Miranda, the new owner of a courier service who was introduced a few paragraphs ago? She knows her business's success depends on her managerial skills. She is responsible for her employees, customer service, vendor

relations, the finances, and the facility. She has a tough job. A business owner is responsible for everything.

Long Hours. Raphael works longer hours now that he owns his own restaurant. He has been working 80 to 100 hours a week to get his restaurant started. Time and effort are important pieces to making a company successful.

Financial Risks. Money is a worry for entrepreneurs. Joseph's consulting business was profitable but it struggled for the first year. Before his business became profitable he financed all costs. He was in charge of paying his employees, producing his service, and meeting his customers' needs. The main reason why entrepreneurships fail is because they run out of money.



Fast Review

1. What are some characteristics of entrepreneurs?
2. What are three advantages of an entrepreneurship?
3. What are some disadvantages of an entrepreneurship?
4. What is the main reason that entrepreneurships fail?

Small Business: What You Need to Know

The Small Business Administration (SBA) defines a **small business** as an independently owned business that usually has the owner as its manager. A small business serves a limited geographic area, employs fewer than 500 people, and is not dominant in its industry. Figure 5.2 shows the different types of businesses that provide employment.

Most businesses in the United States are small businesses. There are about 25 million small businesses, and they are a vital part of our economy. Small businesses employ more than 50 percent of the total workforce in the United States. They generate more than half the nation's income. They are the principal source of new jobs. Small businesses account for about 38 percent of jobs in high technology.

Advantages of Small Business

Small businesses offer many opportunities and are easier to form than large businesses. As a small business owner you would enjoy meeting the challenges of running a business.

Being the Boss. Michelle owns Paint Your Own Pots, a small business. She said, "I want to provide a high-quality service, so I enjoy managing the store myself." Small business owners like being their own boss. An important advantage of being a small business owner is the ability to be in charge. Small business owners make their own decisions. They usually are the managers as well as the owners. Many small businesses, in fact, have no employees.

Opportunity to Offer Services Large Companies Cannot Offer.

Paco saw opportunities that large companies didn't offer. His business was small so he could respond quickly to his customers' needs. For example, Paco knows his customers so well that he can suggest products to meet their individual needs. A large company may not take the time to know its customers on a personal level.

Ease of Formation. Zach noticed how easy it was to form his own hair-cutting salon. He had worked for large businesses before and noticed how hard they were to form. Small businesses require licenses for operation. Their buildings must meet local zoning requirements. Zach found that taking the steps to start his small business took a short time.

Real-World Application

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THE BIZ BEHIND BOZART

Bozart Toys started with a business plan in '95. One year later Mangel acquired the money and produced the first toy, Marco the Magnificent.

Why do you think Mangel's company became a success?

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Disadvantages of Small Business

When you're a small business owner, you're responsible for decisions. At times, life as a small business owner can create a feeling of loneliness if you're used to a workplace where people foster friendships and collaboration. Working long hours, making hard financial choices, and accepting responsibility don't always beget success.

Successful business practices are key to keeping your small business alive. About four out of five small businesses fail in their first five years. Business closings may result from many factors. Small business owners may mistake the freedom of being in business for oneself for the liberty of working or not. Other times a small business may underprice or overprice goods or services. Going into business with little or no experience and without first learning something about it may result in the business closing.

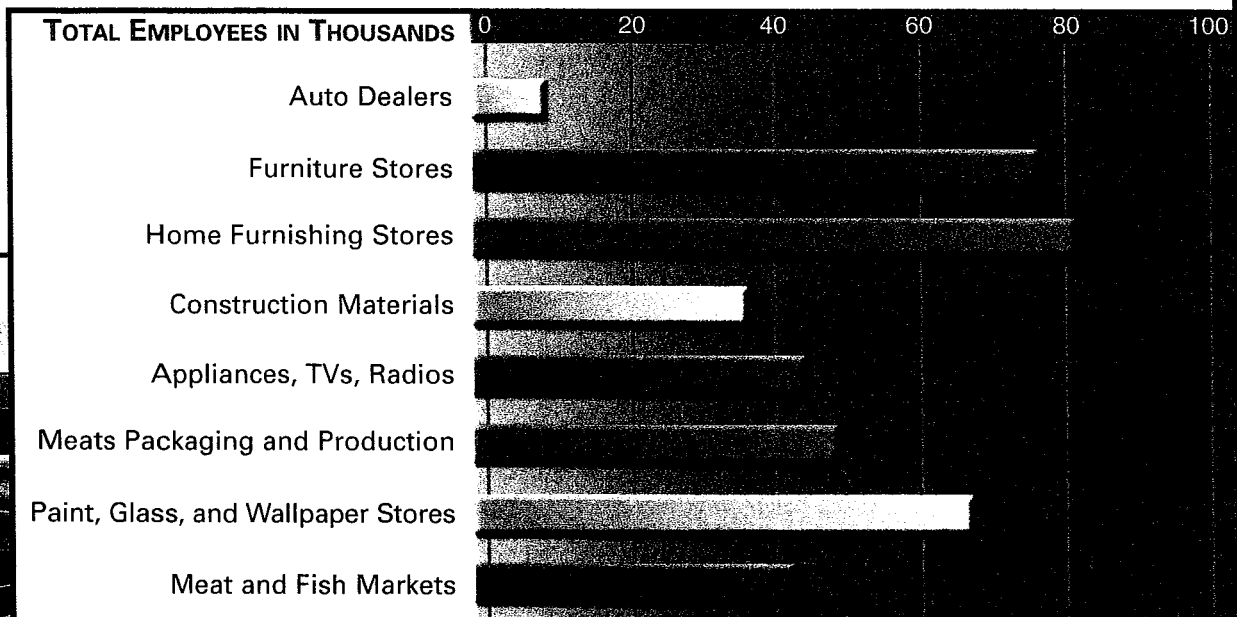
Normally, the most successful businesses are the ones that require advanced training, like dentists' offices and physicians' offices. Yet one of the businesses with the highest odds of monetary growth is manufacturing. Below are two specific causes of why a small business might not work.

Effect of Change. Styles and trends change. Consumers' tastes change. The economic system goes through ups and downs. All of these factors influence the small business. A small business owner must be aware of change and quickly adapt. If flexibility and change are not part

SMALL BUSINESS EMPLOYMENT IN THE UNITED STATES

➔ There are 25 million small businesses in the United States.

Which three types of businesses provided the most jobs?



of the business then it's likely to fail. Not being market savvy can push a small business down as its smart competitors take advantage of opportunities.

Managerial Skills Needed. A small business owner must have multiple skills. For example, Michele must handle financing, employee relations, production, customer relations, and any other area needing a decision.

Inadequate Financial Planning. To keep the business alive, owners must be financially smart. Starting with little money, spending carelessly, borrowing money without planning how to use it, and forgetting about taxes, insurance, and other business costs may result in closure. Money management helps keep a small business successfully afloat.



Fast Review

1. How does the Small Business Administration define a small business?
2. Give an example of a service that a small business may offer that a large company cannot offer.
3. Which is more difficult to form: a large business or a small business?
4. Give examples of special skills that a small business owner needs.
5. List two financial reasons that small businesses fail.

Preparing for Your Own Business

Once you've decided that you want to start a business, the next step is to analyze what you want to do and find a way to do it. When you begin to plan, you start turning your daydream into reality. Careful planning from the beginning is one way to ensure the success of starting a business.

Whether you're starting up a butterfly-breeding business or a picture-hanging business, it is a good idea to develop a business plan. A *business plan* is a written description of a new business venture that describes all aspects of the business. It helps you focus on exactly what you want to do, how you'll do it, and what you expect to accomplish. The business plan is essential for potential investors and financing agencies you'll go to for start-up funds.

Checklist for Starting a Venture

A checklist is a good way to organize your thinking when you begin planning your own business. Entrepreneurs and small business owners

Real-World Application

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THE BIZ BEHIND BOZART

Mangel manages all aspects of Bozart. He travels to China a few times a year to ensure quality control in the manufacturing of the toys. **Identify some reasons why a small business might be hard to manage.**

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On Being Your Own Boss

This activity gives you the chance to add to your portfolio. Communicate, interview, research, and write your way into a story. Choose one imaginary path, *Designed for Life* or *Cold Comfort*. Follow your path's steps to complete your own story.

pick a path

Designed for Life

The Setting. You're interested in designing attractive spaces where people live and work. The places will be inexpensive and environmentally friendly.

Rising Action. You'll design a living space or work space, organize the whole project, and supervise the actual builders.

Step 1. Draw up a business plan to present to your bank for financial backing.

Step 2. Investigate the local and state regulations about the licensing requirements for starting a contracting business.

Cold Comfort

The Setting. One winter day you were scraping the ice off your car when you came up with a terrific idea for a foolproof ice scraper. Your scraper would touch along the entire edge of the glass regardless of the curvature of the windshield.

Rising Action. Now you want to launch a company to develop, test, produce, and market your ice scraper.

Step 1. Write a business plan for the company. Include a name for your ice scraper.

Step 2. Interview a local attorney, law school professor, or experienced inventor about whether or not you should patent your invention.

Conclusion

Now it's time to write your own story and reflect on your path. Explain your business venture to a group of students. Write a few expository paragraphs that will serve as the basis of your talk. Remember, an effective expository paragraph has appropriate organization and specific details that make sense to your audience.

should keep these questions and their answers in mind as they develop and write their business plan.

Here are some questions to consider: What will I produce? Who are my main competitors? Why is my product needed? How much will my product cost to produce? How many people will I need to run the business? What physical facilities will I need? What licenses, permits, or other legal documents do I need? How much money will I need to get started?

Parts of a Business Plan

The Center for Entrepreneurial Management in New York reports that most business plans take more than five months to prepare. Yet it takes most readers, such as bank officers, fewer than five minutes to decide whether or not to read the entire document. Therefore, a business plan must be well-organized, easy to read, and follow a logical format. The essential parts of a business plan are as follows:

- The *summary* is a one- to three-page overview of the plan. Place it at the beginning of the finished proposal but write it after you complete the rest of the sections. Make sure it intrigues readers so they want to read more.
- The *company description* explains the type of company you plan to start. Will it be a manufacturing plant? A retail business? Will it provide a service?
- Expand on the company description in the *products and services* section. Describe the kinds of products you will sell or the services you will provide.
- The *marketing plan* describes your likely customers and details your competition. Indicate the marketing strategies that you plan to put into place. Include types and location of advertising.
- A good business plan also needs to include a *legal plan* that points out how you will organize your company. Will it be a sole proprietorship, a partnership, or a corporation? (See Chapter 6 for types of business organizations.)
- The *management plan and operating plan* detail the company's key personnel as well as their expertise and experience. Specify the company's daily operations, facilities, overall personnel, materials, and processing requirements.
- Of course, no business plan is complete without a *financial plan*. You should discuss the company's financial needs and financing as well as your projections for revenues, costs, and profits.



Fast Review

1. What is a business plan?
2. Name the essential elements of a business plan.

Real-World Application

part 4 of 4



THE BIZ BEHIND BOZART

The Bozart Toys Web site shows consumers its products, but other online sites and toy stores sell the toys. **What are some benefits of selling toys online?**

4

4. Your Web browser then uses the IP address to connect to the *BusinessWeek* server and asks for the *BusinessWeek* home page.

5

5. The *BusinessWeek* server sends its home page file to your Web browser. That home page file is in HTML text.

```

-//W3C//DTD HTML <
EN" "http://www.w3.org
/TR/REC-html40/loose.dtd">
<html>
<head>
<TITLE>
Business Week Online
</TITLE>
<META name="description" la
content="Business Week mag:

```

6

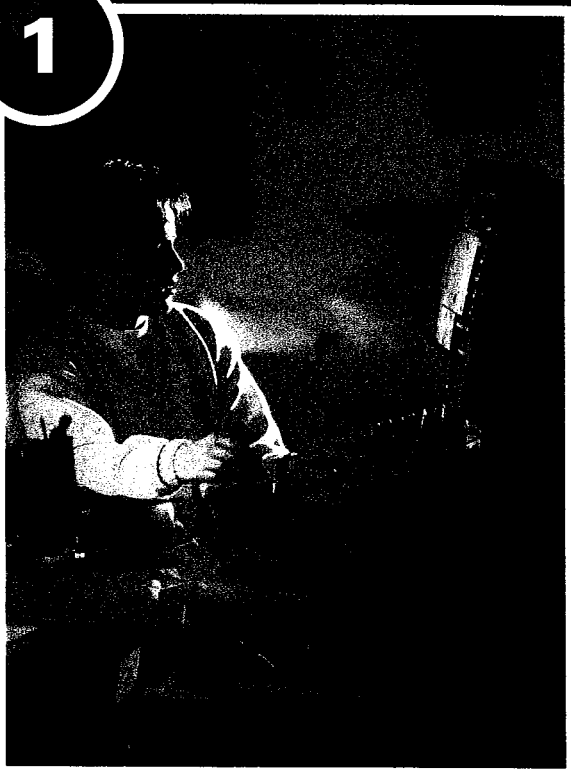
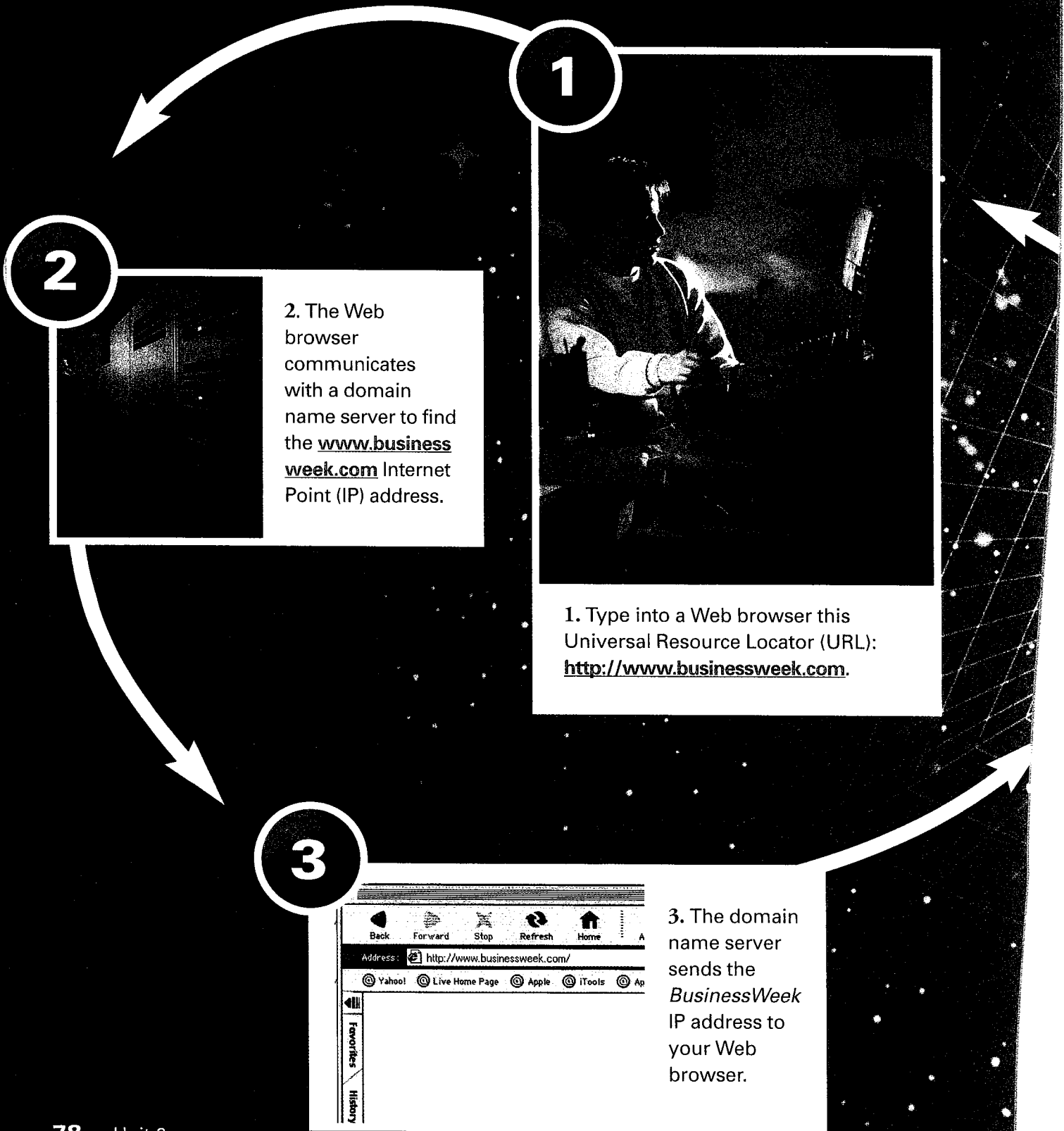
6. Your Web browser changes (or formats) the HTML file to display the *BusinessWeek* home page on your screen.

Research a Virtual Business.

Remember you imagined inheriting \$2,000 at the beginning of this chapter? You decide to open a savings account to hold your money. Visit a real-time online bank on the Internet. List the benefits of an online bank over a bricks-and-mortar bank.

Picture This...

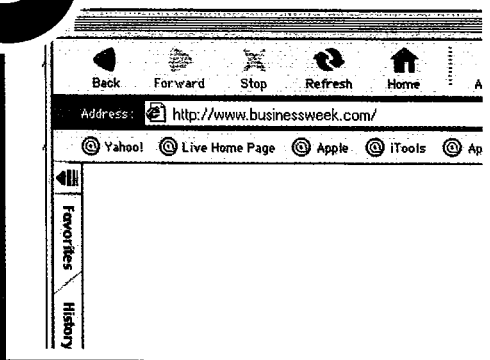
What Happens When You Type a URL?



1. Type into a Web browser this Universal Resource Locator (URL): <http://www.businessweek.com>.



2. The Web browser communicates with a domain name server to find the www.businessweek.com Internet Point (IP) address.



3. The domain name server sends the *BusinessWeek* IP address to your Web browser.

Chapter 5 Review

Summary

1. An entrepreneur recognizes a business opportunity and organizes, manages, and assumes the risks of a business venture. Small businesses are vital to our economy. They employ more than half of all workers in the United States, and they're the main source of new jobs.
2. Entrepreneurs show expertise, may work from home, and gain the profit from their own work. On the other hand, entrepreneurs have to take total responsibility for the business, work long hours, and endure financial risks when they decide to start the business.
3. The advantages of running a small business include being your own boss, providing great personal service, and easy formation. A small business owner faces potential problems if he or she doesn't adapt to change and possibly lacks the managerial skills needed to successfully run the business.
4. Small businesses often fail because the owners start with little money, freely extend credit, have little business experience, don't keep adequate records, don't plan for the ups and downs of business, and haven't mastered time management.

Using Business Key Words

Use these business terms correctly in the following sentences.

- **entrepreneurship**
 - **entrepreneur**
 - **virtual business or dot-com company**
 - **risk taker**
 - **small business**
 - **profit**
1. A(n) _____ is a person who recognizes an opportunity and who organizes, manages, and assumes the risks of a business enterprise, with the intent of increasing the value of the business.
 2. A person who likes to take chances is a(n) _____.
 3. A(n) _____ is a business that operates on the Internet.
 4. The money that is left over after a business has paid all the costs of producing its goods and services is called _____.
 5. An independently owned business serving a limited geographic area is called a(n) _____.
 6. A business started by someone who accepted the risk of starting and running a business is a(n) _____.

Chapter 5 Review

Review What You Learned

7. What do all people who start a new business do?
8. What is an entrepreneurship?
9. What is a virtual business sometimes called?
10. How does the Small Business Association (SBA) define a small business?
11. What is profit?
12. Name the advantages and disadvantages of entrepreneurships.
13. Why may an entrepreneurship fail?
14. How do small businesses help the U.S. economy?
15. Why is it important for a small business owner to be aware of consumer trends?

Understanding Business Concepts

16. Why do you think it is important that entrepreneurs be take-charge, self-directed people?
17. Why are so many people starting home-based businesses?
18. Why might it be more satisfying to run your own company than work for someone else?
19. Why does the owner of a business usually put in more hours at work than an employee?
20. Why is the need for money considered to be the most serious problem an entrepreneur faces?
21. Why do you think small businesses are able to offer services that larger companies cannot?
22. Why is it so important for small business owners to be able to keep adequate financial records?

Critical Thinking

23. Why do you think some virtual businesses or dot-com companies fail?
24. What skills and attributes do you think a successful entrepreneur needs? Why?
25. Explain the difference between being self-disciplined and self-motivated.
26. A checklist is a good way to organize an entrepreneur's thinking when beginning to plan a business. What questions might be on the entrepreneur's checklist?



Viewing and Representing

Examining the Image. With a partner, examine this picture. What kinds of questions does this image seem to answer? Are the questions personal, creative, analytical, or informational? How effective is the image itself for drawing viewers or readers into the issue? Write a brief story based upon your perceptions of this image. Share your story with the class.

Chapter 5 Review

Building Academic Skills

HISTORY

Oral History

Brainstorm and write questions in order to conduct an interview with someone who is an entrepreneur or a small business owner. Prepare questions that will get the interviewee to tell how his or her life changed as the result of being an entrepreneur or small business owner. Present the interview to the class. Discuss how the interviewees' stories compare with the information in the text.

LANGUAGE ARTS

Journalism

Pick a partner to produce a newsletter that describes the successes and failures of the small businesses in your community. Some topics might include funding, laws, economic trends, consumer wants and needs, time management, risk management, help wanted ads, technology, and so on.

COMPUTER TECHNOLOGY

Charting Growth

The hottest market for small businesses isn't across a great ocean. It's right here in the United States. Currently, the combined buying power of U.S. minority groups totals \$1.3 trillion, or some 20 percent of the country's purchasing power. The Commerce Department estimates that the spending power of non-whites will reach \$4.3 trillion, or 32 percent by 2045. In a database program, create a chart or graph to show this likely purchasing power.

MATH

Calculating Closings

In the city of Orange, 187 new businesses opened in 2000. By 2001, 15 percent of businesses were no longer in operation. How many were open in 2001? One year later, another 12 percent were considered discontinued. How many businesses were still open in 2001?

Linking School to Home

Investigate Product Loyalties. Create an inventory of the products and services you and your family use that are produced by small businesses or entrepreneurs. Categorize them by family member. Then interview each family member, and find out why he or she purchases the products and services from the small business or entrepreneur. Compile your results and share them with the class.

Linking School to Work

Portfolio Project. Research the requirements for setting up a small business in your community. Investigate areas such as government regulations, financing, and the costs of leasing space and buying equipment. The local chamber of commerce might direct you in your research. Write a report with your findings.

Chapter 5 Review

E-Homework

Applying Technology

Electronic Survey. Use word processing software to create a survey that can be sent to local small business owners and entrepreneurs in your community. Through the survey, find out what technology skills they currently possess and what type of skills they think they'll need in the future. If possible, send out the surveys using e-mail. As a class, compile the results using a spreadsheet or database software.

High-Tech Callings. Research the technology classes that are available in high schools, technical centers, and colleges in your community. As a class, brainstorm a list of businesses that could be started by someone who has technology skills.

Connecting Academics

Math. Joaquin wants to start his own business for renting bikes at the park. He begins researching the age of his hometown's residents. He learns the following:

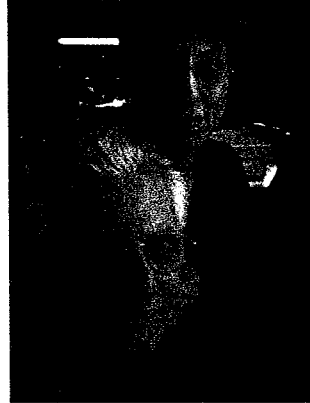
| | |
|------------------|---------------|
| 0-5 years of age | 960 residents |
| 6-11 | 1,840 |
| 12-18 | 4,500 |
| 19-35 | 8,225 |
| 36-60 | 2,960 |
| Over 60 | 2,960 |

Construct a bar graph to present this information. Use computer software if possible.

Language Arts. You want to strengthen your entrepreneurial qualities. Complete the following steps to learn more about other entrepreneurs and yourself:

- **Reading.** Go online or to the library to read articles and books about entrepreneurs and entrepreneurial activities.
 - **Writing.** Write about individuals you know who are entrepreneurs. Did this person overcome obstacles to achieve success?
- **Watching.** Find films about athletes, businesspeople, or others who achieved success.
 - **Practice.** Find case studies that involve goals, creativity, and risk taking.

BusinessWeek Analyzing the Feature Story



You read the first part of "Paint by Numbers" at the beginning of this chapter. Below are a few questions for you to answer about the Gamblins. You'll find the answers to these questions when you're

reading the entire article. First, here are the questions:

27. What motivated the Gamblins to take the risk of starting a new business?
28. How does Gamblin Artists Colors use technology in its small business?
29. What's the purpose of the special line of paints the company recently introduced?

CREATIVE JOURNAL ACTIVITY

What are your hobbies or interests? List business ideas related to your hobbies. How can you reap the benefits of your talents?

BUSINESS Online The Full Story

To learn more about Gamblin Artists Colors, visit the *Introduction to Business* Web site at www.introbus.glencoe.com, and click on *BusinessWeek* Feature Story, Chapter 5.