CHAPTER I

INTRODUCTION TO SBM

Concept:

The concepts of small business, self-employment, entrepreneurship, and startup overlap to certain degree but also carry important distinctions. These four concepts often conflated with each other.

Below are the key differences of these concepts in summary:

- self-employment: an organization created with the primarily intention to give a job to the founders, i.e. sole proprietor operations.
- entrepreneurship: all new organizations.
- startup: a temporary new organization created with the intention to be bigger (at least have employees).
- small business: an organization that is small (few employees) and may or may not have the intention to be bigger.

From the summaries, we can see that many small businesses are sole proprietor operations consisting solely of the owner, but small businesses can have a small number of employees. When big firms start out, they are known as startups, but not all small businesses are startups that aim to become bigger. Many of these small businesses offer an existing product, process or service, and they do not aim at growth. In contrast, startups aim for growth and often offer an innovative product, process or service, and the entrepreneurs of startups typically aim to scale up the company by adding employees, seeking international sales, and so on, a process which is financed by venture capital and angel investments. Successful entrepreneurs have the ability to lead a business in a positive direction by proper planning, to adapt to changing environments and understand their own strengths and weakness.[2] Spectacular success stories stem from startups that expanded in growth. Examples would be Microsoft, Genentech, and Federal Express which all embody the sense of new venture creation on small business.[3]

Self-employment provides works primarily for the founders. Entrepreneurship refers all new businesses, including self-employment and businesses that never intend to grow big or become registered, but startups refer to new businesses that intend to grow beyond the founders, to have employees, and grow large.

Definition:

- Small businesses are privately owned corporations, partnerships, or sole proprietorships that have fewer employees and/or less annual revenue than a regular-sized business or corporation.
- Businesses are defined as "small" in terms of being able to apply for government support and qualify for preferential tax policy varies depending on the country and industry.
- Small businesses range from fifteen employees under the Australian Fair Work Act 2009, fifty employees according to the definition used by the European Union, and fewer than five hundred employees to qualify for many U.S. Small Business Administration programs.
- While small businesses can also be classified according to other methods, such as annual revenues, shipments, sales, assets, or by annual gross or net revenue or net profits, the number of employees is one of the most widely used measures.
- Small businesses in many countries include service or retail operations such as convenience stores, small grocery stores, bakeries or delicatessens, hairdressers or tradespeople (e.g., carpenters, electricians), restaurants, guest houses, photographers, very small-scale manufacturing, and Internet-related businesses such as web design and computer programming.
- Some professionals operate as small businesses, such as lawyers, accountants, dentists and medical doctors (although these professionals can also work for large organizations or companies).
- Small businesses vary a great deal in terms of size, revenues and regulatory authorization, both within a country and from country to country. Some small businesses, such as a home accounting business, may only require a business license.
- On the other hand, other small businesses, such as day cares, retirement homes and restaurants serving liquor are more heavily regulated, and may require inspection and certification from various government authorities.

The Difference Between Big Businesses & Small Business

Business Size Basics

A business's size can be measured by the number of employees that work for it or by total sales within a defined period, but no specific line exists that separates a big business from a small business. However, the U.S. Small Business Administration, for its purposes, does not consider a business with more than 500 employees or $7 million in total annual receipts to be a small business.

Business Legal Structure

A business's legal structure determines how the business is managed, taxed and whether owners are liable for business debts. Many small companies start as sole proprietorships or partnerships, which give a sole owner or a group of owners complete control over a company. Owners of sole proprietorships and partnerships pay income taxes for business profit on their personal income tax returns. They are also legally liable for business debts.

Large companies are often organized as corporations that pay taxes separately from the owners. Large corporations have reporting responsibilities, such as SEC filings, that most small businesses do not. Owners of corporations are shareholders who vote to appoint executive board members but do not directly manage the business.

Financing of Small and Large Businesses

Financing describes how a business raises money to fund operations and new projects. New small businesses typically receive financing from the personal savings of owners, small business loans from banks, and gifts or loans from friends and family members. Well-established small businesses and medium-sized companies might be able to attract financing from outside investors and money from venture capital firms. More recently, some firms have turned to online funding campaigns at sites like Kickstarter in order to launch a new project or an entire business.

Large corporations can raise money by selling shares of stock to the public and by selling corporate bonds.

Differences in Market Niche

Another difference between small businesses and large companies is that small companies often focus on a niche market, while larger companies tend to offer more products and services to a wider variety of consumers. A small company with only a few employees might be able to make enough money to survive by selling a single product or service in a very specific market. As companies grow, they tend to branch out into new markets and offer new products and services to increase sales and hire more employees.

Business size definitions (by number of employees)

	AUS	US	CAN	EU
Minute/Micro	1-2	1-6	1-4	<10
Small	<15	<250	1-99	<50
Medium	<200	<500	100-499	<250
Large	<500	<1000	>500	<1000
Enterprise	>500	>1000	N/A	>1000

Essential Requirements:

- **College Degree**
  Most business management professionals are required to have degrees, according to the Bureau of Labor Statistics. Depending on their position, business managers take courses in management, economics, math, marketing research, human relations and

interpersonal communication to better hone their skills in managing people. Essentially, business managers learn various management techniques in college through instruction, presentations and role-playing before they can get a business management position.

- **Communication Skills**
  Business managers must have excellent communication skills. They need to communicate with all levels of people in an organization from hourly employees to the company CEO. Business managers must be able to provide clear instructions to subordinates on how to perform a specific task. In the same day, the business manager might need to discuss more technical issues with company engineers. Business management professionals must also be adept at communicating with outside vendors. For example, a marketing research manager will need to educate an agency on the company's products before the agency conducts customer surveys.

- **Organizational Skills**
  Business management requirements also include organizational skills. Business managers are usually assigned multiple projects. They need to know how to prioritize various tasks, assign them to specific individuals, assign a time frame for the tasks, and complete the project on or before the deadline. For example, a human resources manager may need to evaluate dozens of different health insurance programs, before finally selecting one and scheduling a meeting with employees. The human resources manager may share the task with her assistant, then have a secretary set up appointments with the health benefit companies that are invited to present their programs.

- **Analytical Skills**
  Business managers must be highly analytical. For example, a business manager may need to determine why production or labor costs are higher than expected. The manager may need to study the production process and make recommendations on how to eliminate waste. Additionally, the manager may determine that employee overtime is driving up labor costs. Business managers must constantly analyze problems and solve them.

Importance of SBM

- Growing Small Businesses in the country
  A small business is defined as a business (corporation, limited liability company or proprietorship) with 500 employees or less. According to the U.S. Small Business Administration (SBA), small businesses represent 99.9 percent of all U.S. businesses. Small businesses created 1.9 million jobs in 2015 with some of the smallest firms - those with 20 employees or less - adding over half of the positions with a 1.1 million increase. As of

2018, the SBA estimates there are 30.2 million small businesses employing a total of 58.9 million workers.

- Employing Local Workers
  Small businesses contribute to local economies by bringing growth and innovation to the community in which the business is established. Small businesses also help stimulate economic growth by providing employment opportunities to people who may not be employable by larger corporations. Small businesses tend to attract talent who invent new products or implement new solutions for existing ideas. Larger businesses also often benefit from small businesses within the same local community, as many large corporations depend on small businesses for the completion of various business functions through outsourcing.

- Adapting to Changing Climates
  Many small businesses also possess the ability to respond and adapt quickly to changing economic climates. This is due to the fact that small businesses are often very customer-oriented and understand the needs of the community. Many local customers remain loyal to their favorite small businesses in the midst of an economic crisis. This loyalty means that small businesses are often able to stay afloat during tough times, which can further strengthen local economies. Small businesses also accumulate less revenue than larger corporations, meaning they may have less to lose in times of economic crisis.

- Contributing to Local Government with Taxes
  When consumers patronize local small businesses, they are essentially giving money back to their local community. A thriving local business will generate high levels of revenue, which means that the business will pay higher taxes, including local property taxes. This money is then used for local police and fire departments as well as schools. A thriving small business also can improve property values throughout a community, improving every homeowner's bottom line while generating more property taxes for local governments.

  The small business impact on local economy growth also takes the form of sales tax collection. Local businesses charge sales tax based on their location and can be the backbone of special taxation districts focused on unique projects, such as lighting and sidewalk projects to improve historic shopping districts and attract additional customers.

- Growing a Small Business to a Corporation

Small businesses do not always stay small. Large corporations, such as Nike and Ben and Jerry's, started off as small businesses and grew to become major players in the national and international marketplace. Many computer-industry leaders began as "tinkerers," working on hand-assembled machines out of their garages. Microsoft and Amazon are prime examples of how a small business idea can change the world. Small businesses that grow into large businesses often remain in the community in which the business was first established. Having a large corporation headquartered in a community can further help provide employment and stimulate the local economy, creating a market that favors the development of additional small businesses.

Limitations:

- **Small Businesses Have Less Brand Recognition**
  A large business enjoys brand recognition wherever it goes. Think of giants like Coca-Cola and Apple, which are known nearly everywhere in the world. A small company won't have the brand recognition it requires to easily gain more customers. Larger businesses enjoy this recognition, and can even increase it by promoting their products more widely and opening branches in more locations.
- **Small businesses suffer from less visibility, and this poses a serious challenge for them when it** comes to attracting new traffic and expanding their operations. The company reputation must be developed from scratch and go through several growing pains before reaching anywhere near the level of a large business, which has already established its reputation.

- **Small Businesses Experience Higher Costs**
  Small businesses have lower bargaining power than their larger counterparts, and this hampers their ability to lower the unit costs of their products. A large company does not face this problem. It can negotiate large discounts on volume purchases by virtue of the large volumes it purchases. It also enjoys economies of scale, which allow it to produce goods in bulk and reduce the cost of overheads. A small business, on the other hand, simply doesn't have the same production capacity or buying power, therefore forcing it to bear greater unit costs.

- **Small Businesses Have Smaller Budgets**
  Small-scale businesses are typically faced by budget hurdles. They can't afford the levels of research and development, marketing, and technology that large businesses enjoy. They also can't employ workers with the same level of skill at the required starter salaries, inhibiting their ability to grow and offer the same quality of products and services to their consumers as large businesses. Before the advent of online advertising, advertising was a

difficult thing for small businesses because their ad budgets couldn't get them a spot on television in most cities in the US.

- **Small Businesses Cannot Compete on Price**
  The fact that small businesses cannot compete with their larger competitors on price is a direct consequence of their lack of bargaining power. When they are unable to reduce the costs of their products and services, they are forced to charge higher prices. They cannot profitably compete with their larger counterparts on price. They are therefore forced to differentiate themselves in other ways, such as customer support or quality of the product or service, in order to compete. This can place additional stress on their budgets.

Benefits

1. Faster response time to customer needs.

In a small company, it is less likely that difficult customer problems will fester because the owner will know sooner and take action. Big businesses often take an extended period to react to customer complaints. With no lengthy chain of command, complex bureaucracies filled with all sorts of policies and procedures common to big businesses, you can respond much quicker to your customers' concerns.

2. You can handle clients' questions and concerns immediately.

You can be there when all the big boys can offer is a ringing phone and a voicemail; you can be available nights, weekends and holidays. Customers know that they can get in touch easily with you – the owner – to help them solve their problems with your product or service. That is a big plus!

3. Ability to offer personal ongoing service to customers.

An extremely important advantage to being small is that you are in a better position to provide a more personal service to your customers. Customers trust businesses that offer them sincere personal attention, and they respond well to businesses that know their names and remember details about former transactions. You put greater pride in customers who say, "I've been doing business with this company since 1995;" whereas a mass marketing giant may less likely to care.

4. Can send the experts for a lesser cost.

Many small business owners are experts in their fields before branching out and starting a business: a small advertising business may be run by a former creative director of a large ad agency, or the owner of a video production house may formerly be a director of independent films.

You need to harness quality work, combined with reasonable fees – two important aspects that create value and could form the basis for establishing a growing base of loyal customers. By niche marketing your services and specialty skills, your clients should see you as a specialist despite your size.

5. Lower overhead costs.

By being small, your business requires fewer resources to operate and maintain. Your lower overhead costs can allow you to offer a cheaper price, and even undercut a big competitor. You can outsell the big corporations by getting a higher percentage of business from within a very narrow niche. You can pinpoint your focus, and do well on a smaller profit margin.

6. More nimble and flexible.

Small businesses are more flexible and less bound by policies and procedures. When a customer complains to a Best Buy saleslady, for example, the customer will most likely hear the statement, "Our policies state that so-and-so." The employees are unable to extend better customer service as their hands are tied by company policies. As a result, unsatisfied customers who perceive that their needs are not important to the company leave.

You, on the other hand, can easily provide concessions to complaining customers. To keep the customers happy and satisfied, you can adjust easily a policy; no need to go through the board or the legal department to approve any change in policies of the business. This flexibility fosters confidence and loyalty among customers.

7. Quick to react to changing market conditions.

Being flexible also relates to the ability to react quickly to changing market conditions. Because of their small size, most small companies are forced to be innovative if they want to compete. Your small business lacks the resources of larger companies, and so the only way you can compete is to come up with something creative, new, and different.

Most mass marketers cannot react as quickly to changing market conditions, but you can. You can make changes in your inventory, billing, new product or other procedures more easily in response to changing customer needs. More importantly, you can make decisions NOW!

8. Can work more closely with customers to correct the company's shortcomings.

In large companies, there is often a wide gulf between customers and policymakers. Small business owners are often on the front line, and policies can be changed as needed immediately. To keep ahead of the game, you can monitor customer feedback, especially those who have switched from larger companies to your small business and respond to them immediately.

The key to excelling against the big boys is to do the things that they don't do. Your small size has its advantages – way more than listed above – use them to outmaneuver and out service them every time and win the game!