

CHAPTER 5

Small Business

Small Business

- 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.
- Small businesses employ more than 50 percent of the total workforce in the United States.

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- Small businesses 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.
- There are 25 million small businesses in the United States.

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● Which three types of small businesses provide the most jobs?

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● ADVANTAGES

- Being the boss
- Offering services large companies cannot offer
- Ease of formation

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● DISADVANTAGES

- When you're a small business owner, you're responsible for decisions.
- You often work long hours and have great financial responsibility.
- About four out of five small businesses fail in their first five years.
- Small business owners may mistake the freedom of being in business for oneself for the liberty of working or not.

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● DISADVANTAGES

- A small business may underprice or overprice goods or services.
- Going into business with little or no experience may result in the business closing.
- The following are three specific reasons why a small business might not work:
 - **Effect of Change**
 - **Managerial Skills Needed**
 - **Inadequate Financial Planning**

Why Small Businesses May Not Work

● Effect of Change

- Consumers' tastes change. If flexibility and change are not part of the business, then it's likely to fail.

● Managerial Skills Needed

- Financing
- Employee relations
- Production
- Customer Relations

Why Small Businesses May Not Work

● **Inadequate Financial Planning**

- Starting with little money, spending carelessly, borrowing money without planning, and forgetting about taxes and insurance may result in a failure.