

THE STATE OF

ROLLING WITH THE PUNCHES

AND

THE SMALL BUSINESS ADMINISTRATION
OFFICE OF ADVOCACY DEFINES
A SMALL BUSINESS AS
AN INDEPENDENT BUSINESS
HAVING FEWER THAN 500 EMPLOYEES.

PERSONAL PASSION:



83%

of small business owners are
still passionate about the
business they started

Small businesses are the engine of the American economy,
having created **64 percent** of new American
private sector jobs generated in the past 15 years -



that's

40
million

net **new jobs** according to the
Council of Economic Advisers.

96%

of small businesses use
wireless devices and
technology in their operations

In terms of raw numbers, there were an impressive **565,000 new businesses**
started each month in 2010, translating into a whopping **6.8 million new firms**

565,000

New Businesses

6.8 million

New Firms

SOURCES: U.S. Small Business Administration (SBA), SBA Office of Advocacy, smallbiztrends.com, Kauffman Index of Entrepreneurial Activity, Intuit



SMALL BUSINESS

UPPING THE ANTE

OPEN

**SMALL BUSINESSES DRIVE INNOVATION,
CREATE 21ST CENTURY JOBS AND INCREASE U.S. COMPETITIVENESS.**



★ WHAT KEEPS SMALL BUSINESS OWNERS UP AT NIGHT?: ★



TOP REASONS SMALL BUSINESSES USE MOBILE APPS:



MOST POPULAR APPS:



SMALL BUSINESS IT:



THE STATE OF SMALL BUSINESS

● BY ERIC KRELL

● ROLLING WITH THE PUNCHES AND UPPING THE ANTE

INNOVATIVE ENTREPRENEURS GRASP THE TRUE MEANING OF “RISK.”

SUCCESSFUL SMALL BUSINESS LEADERS TEND TO TREAT RISK AS A TWO-SIDED COIN: THEY IDENTIFY AND MITIGATE THREATS ON ONE SIDE WHILE SEIZING AND EXPLOITING OPPORTUNITIES ON THE OTHER SIDE.

Thanks to the rough wake of the global economic crisis, recent technological breakthroughs, better short-term access to specialized skills and intensifying global competition for skilled talent over the long term, there have never been more threats or opportunities confronting **U.S. SMALL BUSINESSES.**

Take it from Pangea Bottles founder Kevin Henry (MBA '10), who is definitely a glass-is-half-full kind of guy when it comes to risk.

“While a global recession does have an impact on any business, I believe that the recession has led to more small businesses and startups driving innovation by necessity,” notes Henry, who earned his BBA from Baylor University in 2008. “Many large organizations have trouble in bad economic times causing them to cut back on certain aspects of their business, while startups have the ability to react more quickly and use the talent more efficiently to create innovative products.”

Henry’s optimism is contagious—for every Pangea bottle purchased, the company provides a person in need in countries such as Haiti and Guatemala with clean water for four years—and impressive given that the recession and other drivers of change pose new and sizeable threats to small businesses.

For this reason, Henry would represent a prototypical “product” of the Hankamer School of Business’ longstanding emphasis on grooming future leaders of startup, small and family-owned businesses.

“Hankamer has focused on creating courses and programs for future leaders of startup companies, privately held and family businesses since the late 1970s,” says Hankamer School of Business dean Terry Maness, who credits his predecessor, Dr. Richard Scott, who more recently served as Baylor University’s vice president for development until his retirement in 2006, with launching these efforts. This emphasis is particularly important right now, given the number and magnitude of risks confronting even the most optimistic of small business leaders.

CAUSES FOR PESSIMISM AND OPTIMISM

The volatile nature of small business management is evident in the jagged trend line of the Index of Small Business Optimism the National Federation of Independent Business (NFIB) publishes each month. Although the index, which is based on 10 indicators, is above its 2009 historic low, it has declined for five straight months (as of July 2011). Weak sales are the top cause of declining optimism, according to the NFIB, followed by concerns about rising inflation.

“While I am an optimist by nature, like most entrepreneurs, there is a general uneasiness among small business owners about opportunities in the near future,” notes Steven Bradley, assistant professor of Management and Entrepreneurship. “In growing economies, small businesses often find new niches in markets, and those niches are hard to find right now.”

The 2008-2009 global economic crisis continues to disrupt businesses. “Small companies were hit hard during the recession and are still being negatively affected, perhaps even more so than larger companies, by the lingering impacts of the recession,” explains Kevin Castello, director of the Baylor Angel Network. “Companies with less than \$10 million in annual revenue are really struggling to find the capital and access to credit that they need.”

CLOUD COMPUTING ACCORDING TO SMALL BUSINESS OWNERS AND MANAGERS:

- 47%** Not familiar with it
- 25%** Heard of it, but don't know what it is
- 18%** Somewhat comfortable with it and only understand the basics
- 10%** Very comfortable with it and can explain it to others

"It's no surprise that **"IMPROVING ACCESS TO CAPITAL"** represents the first, and most frequently mentioned, strategic objective identified in the U.S. Small Business Administration's strategic plan for fiscal years 2011 through 2016."

Other uncertainties, including the nerve-wracking debt-ceiling standoff among federal legislators and major questions about the U.S. tax environment, also pose future risks and complicate medium-range forecasting processes. In addition to inflation, Bradley points to increased regulation and taxes as the largest concern for small business owners.

The time and resources required to meet regulatory requirements comprise a relatively small percentage of large companies' expenses. However, compliance costs "can quickly deplete what little profits a startup firm might have," Bradley points out. "The willingness to take risks and introduce new products and services to the market is slowly choked off by these higher hurdles."

That's the bad news. The good news is that the opportunities available to small businesses make these threats worth addressing. One of the leading publishing authorities on small business reports that some of the best startup opportunities exist outside of Silicon Valley this year (see "Enticing Industries for Entrepreneurs"). This is not because technology and software startups have waned, but because growth is robust in other areas, including education companies, consulting services and even brick-and-mortar retail.

Inc.'s recent lists are worth noting today because their occupants influence the *Fortune* 500 lists of tomorrow. More than half of the companies on the 2009 *Fortune* 500 list were launched during a recession or bear market, along with nearly half of the firms on the 2008 *Inc.* list of America's fastest-growing companies.

CLOUD COMPUTING AND OTHER GAME CHANGERS

In the dynamic world of small and startup businesses, there are great differences between today and tomorrow. Many of these differences make it much easier to start a company while simultaneously posing more challenges to managing and expanding the small company.

"In the startup world, companies can launch and get rolling on far less investment capital than it used to require," Castello notes. "The joke is that \$500,000 is the new \$5 million."

A number of developments are responsible for this lower barrier of entry, which of course, marks both an opportunity and a threat. Since more business concepts can evolve into startup companies, competition among startups has increased and for the venture capitalists and angel investors who fund these companies, differentiating the signals from the noise has grown more difficult.

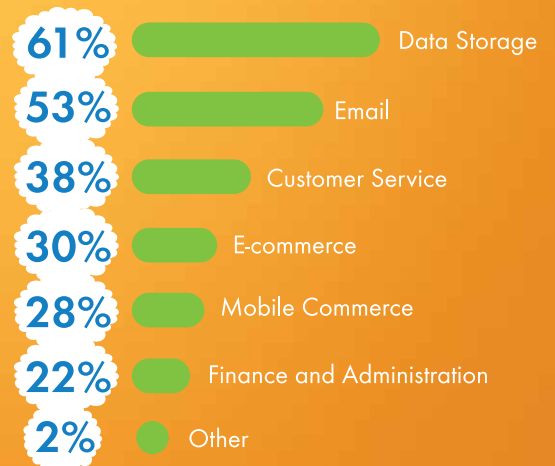
These favorable developments include the following areas:

CLOUD COMPUTING

Cloud computing and the software-as-a-service (SaaS) model have greatly increased access to sophisticated business software systems while greatly lowering the price of this access. In the past, few startup companies and small businesses could afford the price tag, implementation cost and annual upkeep (including major upgrades) of the latest and greatest enterprise resource planning (ERP), customer relationship management (CRM), sales force automation (SFA), manufacturing resource planning and supply chain management applications. Today, they can do so through affordable subscription fees and secure Internet connections to sophisticated software that sits on vendor servers.

ON THE HORIZON

Cloud technologies small businesses plan to deploy this year:

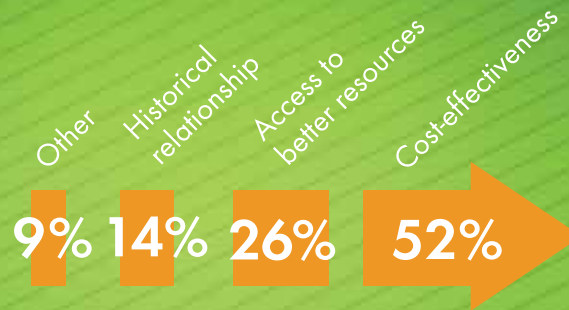


REASONS FOR OUTSOURCING IT SUPPORT:

Michael Hugos, author of *Business in the Cloud: What Every Business Needs to Know about Cloud Computing* (Wiley, 2010), points out that “cloud computing is happening in a big way” following four years of increasingly intense tire-kicking by CIOs, some of whom expressed concerns related to data security and service level agreements (SLAs). Hugos believes cloud computing and SaaS enable greater agility, a crucial competency among small and startup companies.

The cloud model also creates new opportunities for innovation that companies of all sizes are in the process of figuring out. Janet Foutty, Deloitte Consulting’s national managing director of technology, points out that small companies have been quicker to take advantage of cloud-based software by gaining “much more affordable access to leading-edge enterprise technology that only larger companies could previously afford.”

Foutty also notes that the cloud concept may soon be applied to other areas that may interest small business leaders and other entrepreneurs. “We’ve been playing around with the cloud concept as it might apply to a virtual workforce,” Foutty says. “How do you take the cloud concept of a virtual workforce and develop a better, more coherent strategy for using contractors and consultants as well as offshore and on-premise resources to allow you to respond more effectively to changing business needs?”



OUTSOURCING

Technology developments have given small businesses access to sophisticated back-office information systems at more affordable prices. This access has helped lessen the amount of manual, transactional work small businesses conduct so that leadership teams can focus more energy on strategic activities, notes Bill Klein, president of Austin-based Consero, a provider of outsourced finance and administration (F&A) services for small and mid-market companies. Consero was identified as one of the fastest-growing companies in Central Texas, according to the *Austin Business Journal*.

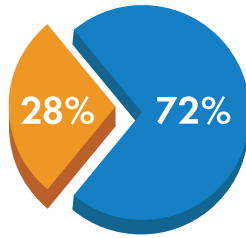
“Small companies have long struggled with the challenge of generating timely, accurate financial reports,” Klein explains. “This work was manually intensive, and it often consumed a significant amount of executive time.”

Cloud computing and SaaS enable many more small businesses to leverage third-party expertise to manage transactional finance and accounting functions. Rather than spending millions to implement a new enterprise resource planning (ERP) system, businesses can essentially rent this leading functionality through a “pay as you grow” pricing model. This model has also contributed to the growth of outsourcing among small companies. SaaS-equipped outsourcing providers, like Consero, can operate all of a company’s finance and accounting processes more effectively and at a lower cost than a company can do so while managing those processes internally. “Most important,” Klein adds, “this capability enables executives to invest more time in strategic initiatives and less time wrestling with spreadsheets.”

...small companies have been quicker to take advantage of cloud-based software by gaining **“MUCH MORE AFFORDABLE ACCESS TO LEADING-EDGE ENTERPRISE TECHNOLOGY THAT ONLY LARGER COMPANIES COULD PREVIOUSLY AFFORD.”**

SMALL BUSINESSES WITH A SERIOUS APP-ETITE:

Say it's difficult to survive without apps



Use mobile apps

SOCIAL MEDIA AND MOBILITY

Two forms of technology, social media and mobile devices (e.g., smart phones), originally designed for individuals and consumers have helped startups and small companies conduct marketing, communications, collaboration and other business processes much more effectively and much, much more efficiently.

Social media covers a growing set of online platforms that connect people and customers to each other through networks. Facebook and Twitter are the most frequently mentioned of these platforms, but social media business applications also include ratings and reviews on e-commerce sites, specialized blogs, networks such as LinkedIn and membership coupon offerings like Groupon. These offerings can help companies conduct powerful marketing and CRM activities in a highly responsive and customized way for the cost of an Internet connection and a laptop.

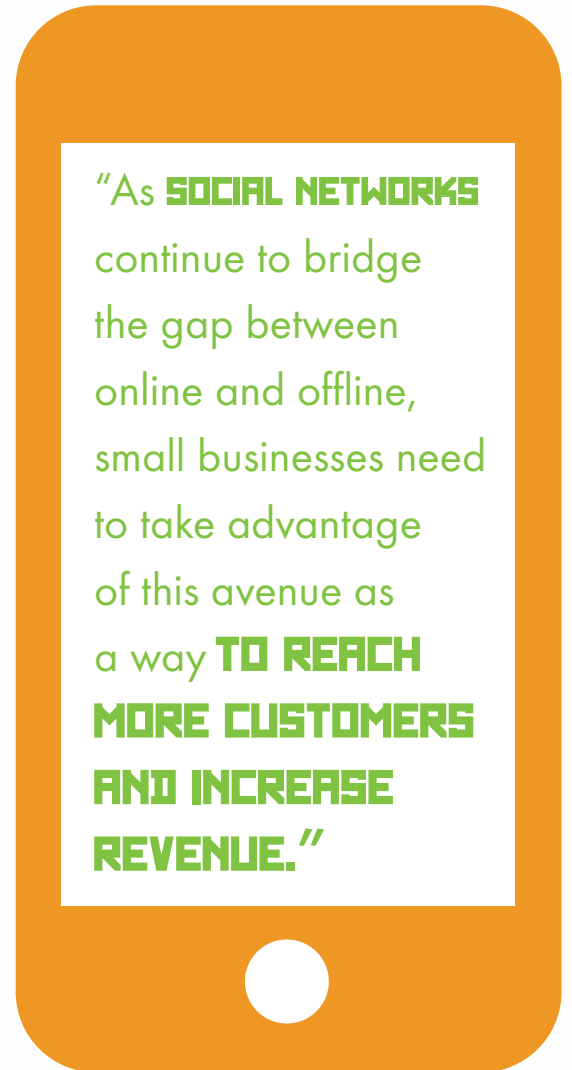
"Mobility" refers to the explosive growth of computing power (both personal and business) each employee now commands. Smart phones, for example, enable employees to carry virtually all of their business tools (calendars, bookkeeping, other business software apps, telephone and teleconferencing lines, etc.) with them in their pocket at the cost of a \$200 device and a monthly cellular service subscription fee.

"Online sales and marketing is probably the greatest technological change that is both a threat and an opportunity for small business owners," Bradley says. Henry agrees. "As social networks continue to bridge the gap between online and offline, small businesses need to take advantage of this avenue as a way to reach more customers and increase revenue," he says.

SMALL BUSINESSES WITH ALL EMPLOYEES USING WIRELESS DEVICES FOR REMOTE WORKING:



*projected



"As **SOCIAL NETWORKS** continue to bridge the gap between online and offline, small businesses need to take advantage of this avenue as a way **TO REACH MORE CUSTOMERS AND INCREASE REVENUE.**"



"Small business is often referred to as **THE BACKBONE OF THE AMERICAN ECONOMY**, and these curriculum adaptations will help cultivate future small business leaders who grasp the true meaning of opportunity, risk and business."

**MORE
THAN
HALF**

of Americans either own or work for a small business.

INCUBATING SMALL BUSINESS LEADERS

There may be an even bigger risk than technology: talent.

"Recruiting and retaining the best talent will always be the number one thing a startup can do to help them thrive," Henry adds. "Small businesses or startups will always have to compete with large organizations for the best employees, so the risk of losing good employees is and will continue to be one of the most formidable risks inherent to startups."

Staff reductions within large companies increased the supply of specialized skills available to small companies during the past two years. However, the global supply of skilled talent has never been more constrained thanks to many factors, including the growing importance of knowledge workers in the U.S. and other developed economies; the rapid growth of China, India, Brazil and other developing economies; and aging populations within developed countries. The annual global skills survey conducted by staffing firm Manpower finds that 52 percent of U.S. employers have trouble filling "mission-critical positions," up from 14 percent of U.S. employers last year. That represents more than a 300 percent increase in the number of companies having trouble finding qualified people.

Ed Gordon, author of *Winning the Global Talent Showdown: How Businesses and Communities Can Partner to Rebuild the Jobs Pipeline* (Berrett-Koehler Publishers, 2009), says the problem is not unemployment, but a "broken employment infrastructure." Countries, companies and universities need to work together to create more of the skills that companies need, Gordon adds. For startups and small companies, these skills include the ability to communicate effectively, resourcefulness, initiative, creativity and integrity among other leadership characteristics whose incubation tends to occur outside the classroom.

This helps explain why Hankamer launched its Entrepreneurship Living-Learning Center, an apartment-style residential facility where students live, debate, brainstorm and collaborate with other entrepreneurially minded students (many, but not all of whom are pursuing business degrees). This real-life experience complements the innovative classroom learning that is offered through Hankamer's Entrepreneurship Program, which is one of the oldest in the country having launched in 1977.

"Our curriculum is innovative and flexible enough that we keep adapting to what the realities of the job market will look like for students," says Kendall Artz, director of the Baylor Entrepreneurship Program. "Small business is often referred to as the backbone of the American economy, and these curriculum adaptations will help cultivate future small business leaders who grasp the true meaning of opportunity, risk and business."

ENTICING INDUSTRIES FOR ENTREPRENEURS

Each year, *Inc.* magazine identifies the best industries for starting a business. The research consists of data compiled and analyzed from three research firms (Sageworks Inc., AnythingResearch.com and IBIS world). This year's "Best Industries" list, released in April, features 17 industries, including the following:

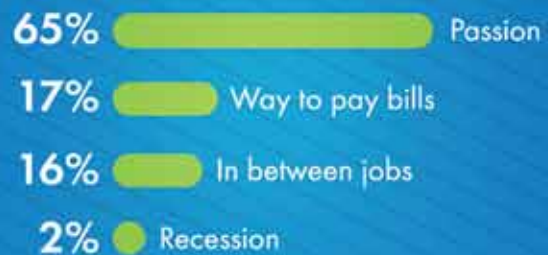
- Financial Planning, Advice and Investment
- Online Dating and Matchmaking
- Beauty Industry
- Public Relations Firms
- Real Estate Appraisal
- Green Toys
- Automobile Dealers
- Physical Therapy
- Recreational Goods Rental
- Language Schools
- Organic Snacks
- Employment and Recruiting Agencies
- Location-Aware Apps
- Environmental Consulting
- Clothing Accessories Stores
- Historical Sites
- Technical and Trade Schools

www.inc.com/best-industries-2011/index.html

SUCCESS RATES OF NEW SMALL BUSINESSES:



NUMBER ONE REASON FOR STARTING A BUSINESS:



In 2011, an estimated

27.2
million

small businesses are operating in America. Small businesses are **major contributors** to the strength of the American economy.

