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Small Business Success: What Works and What Fails

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Abstract:

Small Business Success: What You Need to Know. The owners of eight successful new businesses (successful defined as at least four years old and owner perceived) were interviewed, as well as the former owners of four unsuccessful businesses. The study showed that while planning can help your business, implementation is the fundamental component of small business success. This study was undergone to help create a link between what students learn in businesses classes, which is primary focused on working for a large company, and what people do in the entrepreneurship field.

Introduction:

Small business is such an important aspect of American society that it merits the extensive amount of research that has taken place in more recent years. Small businesses make up 99.7% of all employer firms and they employ a little over half of all of the people working in the private sector ("Frequently" 1). Employer firms are those that have employees compared to non-employer firms, which do not. There are more non-employer firms in operation than employer firms, but their impact on the United States' economy and labor force is less significant than employer firms. Small businesses generate 45% of the total United States payroll and produce more than half of the non-farm Gross Domestic Product (GDP), which is the total of all goods in industries other than agriculture ("Frequently" 1).

There is a very good chance that many graduates from Lynchburg College, as well as other colleges and universities, will get their first job with a small business. The Lynchburg College business program offers concentrations in marketing, management, accounting, business administration, and economics and offers classes in these programs which focus on learning the skills a student will need when they get a job working for someone else in a large company.

A position in a small business may be more complicated than one with a large company because the position has to cover a larger array of duties and responsibilities. These roles can be covered more in-depth by individuals in larger businesses because they can afford to have more employees who will specialize in a particular area and will therefore carry a larger work load for each position. For example, the accounting process in a small business will not require the hiring of a full-time accountant, as would an equivalent position at a large company. Instead, throughout the early years, the owner or one of the employees will fulfill the requirements of this position.

The generally accepted standard of small business includes any organization with less than 500 employees ("Frequently" 1). In other countries, these businesses are known as Small-to-Medium Enterprises (SME). There are two main types of small businesses: those with employees and those without ("Frequently" 1). Each of these business types has unique challenges and rewards.

There are many different ways to determine if a business is a success. Some examples include, profit, growth rates and the owner perception of success (Bellamy 4). There are three popular types of rewards for small business owners: personal growth, flexibility, and income (Katz and Green 9). Most owners find satisfaction in solving complex problems, having more freedom over their own schedule and are looking for competitive, or slightly above, monetary compensation. The majority of owners are not primarily seeking a high income from their efforts (Katz and Green 10).

Time is also an extremely important factor in determining whether or not a business can be considered successful. One study found that after two years, only 66% of businesses were still in existence. After four years, only 44% of business had survived ("What It Takes" 1). The Small Business Association states that two-thirds of businesses reach the four year mark (Katz and Green 5), while research conducted by the Small Business Association of America found, on their website, that only 44% of small businesses endure through four years ("Frequently" 1).

This thesis will give small business owners crucial information on where to focus their efforts when starting a business of their own. It will challenge, or confirm, current teachings about what is essential for small business success. It will answer the research question: What are the driving indicators of success for small business start-ups?

Literature Review:

Outside Help:

There are many variables that determine the success of a small business during its formative years. The first thought is to get outside help from people who specialize in start-ups and can help potential owners avoid the pitfalls that so many small businesses struggle with. Small Business Development Centers (SBDC) and incubators can help drastically improve the chances of a businesses ability to succeed. SBDCs are organizations set-up and funded by local governments to help provide free literature and advice to people who are looking to start up their own business ("History and Overview"). They also receive funding from the Small Business Administration (SBA), which is an independent agency of the federal government ("History and Overview").

The benefit of this program, for the local government, is that it encourages the production of goods or services, which boosts the local economy to an even higher level.

More recently, SBDCs do not rely solely on the government, but also the private sector and academia. Local businesses in the private sector help make funds available to the developing small businesses. SBDCs are also working closely with colleges and universities in order to get the best information to the potential business owners (Wichmann and Boze 2). An incubator is designed to house a small group of businesses under the same facilities. This allows for the businesses to share costs, have low rent and utilities, and be in an environment with people experiencing similar challenges (Moran 1). They are under a contract which only allows for them to stay for a certain amount of time, generally five years or less, because the centers are designed to help a business open and then move their own location to grow. These centers are designed to give a company a slight competitive edge in their cost scale, which boosts their success rates.

When using a SBDC, the four year success rate jumps dramatically from 44% to 81-87% (Katz and Green 5). This success can be attributed to the extra effort that the owner must put into the business in order to even qualify for loan money from a SBDC. Additionally, there are even stricter standards in place in order to be eligible for use of any of the real estate in an incubator.

There are many success stories stemming from the use of the Small Business Administration. There are many local banks that have financial backing from the SBA, which allows them to loan money to small businesses with less risk. In 2001, two men wanted to open a business repairing cranes on the coast of Virginia. They wanted to move into a larger facility, but needed a loan to purchase the building. They were turned down by all of the local banks, except one that was connected with the SBA. As of 2006, they were grossing over $6 million a year in revenues (Mandelbaum 3). There are hundreds of thousands of these types of stories because the SBA has lent money to over 20 million small businesses since it was created in 1953 ("History and Overview").

The Business Plan:

A business plan is a written document that describes, in detail, the major characteristics of a business. The average length of a business plan is 40 pages and can take anywhere from 6 months to a year to write (Hormozi, Lucio, McMinn, Sutton 2). It generally contains information about the product or service, the industry, the market, operations, and current and future predictions about key financial data (Katz and Green 198). Business plans do not have to contain all of this data, but they are also not limited to these areas. While many people have attempted to create an outline that will fit all situations, each firm is very different and requires slightly different sections or formats (Starr 46).

There are two reasons for writing a business plan: external and internal legitimacy. External legitimacy is when an outside source expects a plan in order for the owner to convince them to do something, whether it is finance the project or receive outside help (consulting). Internal legitimacy is when the owner wants to have a better, more complete understanding of the business as a whole and how it is doing relative to the market. Having a clear idea of the business can help the owner capitalize on potential opportunities and avoid common pitfalls (Katz and Green 198).

Lawrence Starr used his experience to come up with his ideal plan for small businesses. He believes that one major component that is missing in most plans is profit sharing with the employees. He also said that business plans should be kept simple, and to the point (Starr 49). Location should also be a main consideration in the planning process because it can often be the difference between success and failure (Ramachandran 63).

Most businesses decide to create a business plan because they know that investors and banks are going to want to see that their idea is sound and will produce enough returns to cover the cost of the loan. The owner's personal characteristics make themselves very apparent in a business plan because the owners usually write them. Banks and investors are constantly looking to see that the owner is dedicated to the success of the business because they believe it represents the likelihood of their return on the investment (Ramachandran 64). A well-formed, error free, and visually appealing business plan will only help convince bankers and investors that the plan will work (Hormozi, Lucio, McMinn, Sutton 3).

Business plans are useful for businesses of all sizes and age. New business owners, existing owners seeking financing, and existing owners wishing to increase their success should write a business plan. This will not only help them secure financing, but the internal benefits greatly outweigh the external ones (Hormozi, Lucio, McMinn, Sutton 2). Looking ahead to potential situations forces the owner to step out of the ideal world and recognize potential problems. There are many hurdles to opening a business such as legal structure, permits, insurance, and many others that could potentially create a large problem in the future (Ramchandran 65). Thomas Kinnear said, "Writing a business plan will force you to think in a disciplined way about what you are doing ("What It Takes" 72).

A good business plan will create a set of goals and benchmarks, which will help focus the business on its objectives. It can be continually used and updated to maintain the focus of the business. Operating the business on paper creates an opportunity to identify potential problem areas and form solutions without the real world consequences associated with actually running the business. This means that it is important for the owner to be a big part in the writing process in order for them to reap the full benefits. It is possible to hire an outside source to write a detailed plan, but it is better for the owner to write the plan themselves and then take the document to a professional to evaluate and help fill in the problem areas (Hormozi, Lucio, McMinn, Sutton 2). Experts are very good at creating a plan that will be approved for financing.

Strategic Planning:

Stephen Spinelli, co-founder of Jiffy Lube, said, "Expect the unexpected. You can be sure of this: You'll encounter chaos. The marketplace changes as soon as you get into it ("What It Takes" 72)." Small businesses are said to have many advantages over large businesses, one being their flexibility and ability to adapt to current market conditions quickly. They need to be constantly asking themselves what the future is going to look like and how they can capitalize on an emerging market or need. Small businesses must be looking and planning for an opportunity to take advantage of something missing in people's lives (Drucker 7).

Extremely small businesses can often be the start of large ones. "The small company that does a good job of shaping the future today will not remain a 'small business' very long (Drucker 2)." IBM, Xerox, Dell, and McDonalds are all great examples of businesses that started extremely small and can now be considered giants in their industry. Owners of small business need to have an idea of how large they want the business to be in order to operate their business accordingly. Only 33% of small businesses want to grow into a large business (Ewers 58). "Planning plays an important role in determining the degree of success realized by a new or small business (Hormozi, Sutton, McMinn, and Lucio 1)."

Many small businesses do not initially think about strategic planning. Only 46% of small businesses have strategic plans (Beckett 44). It only becomes an issue for them when there is a fundamental shift in the industry or a catastrophe strikes and forces the business to make long term decisions. The duties of the owners are already stretched so thin. Many business owners find themselves too caught up in the daily operations of their work to spend any time working on a comprehensive strategic plan. Other owners find their cash flow to be insufficient to afford the strategic planning process (Beckett 44).

Focus is a large component of strategic planning. In order for a company to accomplish their goals, it must have an idea on where it wants to go. Many businesses find that focusing on a niche market is there best chance at success. Praveen Gupta says that small business should focus their efforts on creating value-to-price relationships by giving customers what they would love to have, not just what they asked for. Gupta also said that small business must focus on profitable growth by developing innovative solutions to meet new customer demands (156).

Time Input:

Owning a small business is hard work and can mean that the owner is going to have to work long hours. One study found that more than 40% of owners work at least six days a week, 52% take less than a week off every year, and 59% still take calls and e-mails while they are not at work (Ewers 58). This is not the normal 9am-5pm work schedule that many people expect from work.

Another study found that 57% of owners work six or more days a week, while less than 7% work fewer than five. Sixty-two percent of owners work more than 50 hours a week, with the average being 52 hours. This study also found that, on average, small business owners take two weeks of vacation each year and six out of ten did not do anything work related. While these work hours and days may be longer than the average job, 65% of owners are still able to make time to do the things that are most important to them outside of work (Jacobe 3).

Management Skills and Employees:

Employees are usually considered a firm's most important assets. "You might as well invest money where it counts, which is people (Shiffman 63)." Even though 88% of the PROFIT HOT 50 companies say that the ability to attract and retain great staff is a critical step in achieving super growth, many owners under appreciate the human resource aspect of small businesses. The owners generally have a background in sales, finance or engineering, so they ignore or over look the needs associated with human resource management (Shiffman 63). Successful small business owners often implement profit sharing with their employees because they realize that it creates incentives. It makes employees feel more involved and conscious of the success of the business (Shiffman 64).

Previous studies have found that many small business owners are not sufficiently skilled and up-to-date in their managerial skills in order to best manage a business. "Unfortunately, the evidence suggests that most small business owners are not aware of the management practices currently advocated by management and marketing experts. Clearly, a change in the way many small business owners manage their firms would be advantageous (Verser 41)." Verser suggests that the teaching methods for college students and entrepreneurs needs to be changed in order to better prepare these individuals for the real business environment (42-43).

Many businesses rely on their employees to complete the work, as well as deal directly with customers. This makes the selection and retention of good employees even more difficult because these people have to have two skill sets: trade skills and people skills. Robert Beere has found that unconventional rewards and training are essential to keeping his employees happy. Being able to balance sufficient rewards without going broke can be very difficult. Beere also said that quickly resolving conflicts helps keep his employees around ("A Skill for All Seasons" 39).

Many people choose to work at large firms because of the perceived stability they provide. There are many important benefits that small business owners must emphasize to convince potential employees to work for them. Small businesses could offer a slightly higher than average salary, 401k or similar retirement plan, health insurance, and vacation time (Klein 11). While these big areas are important to most people, there are many flexible elements that a small business can draw upon to further entice a potential employee. Perks such as a casual work environment, flexible work schedules, telecommuting, and social activities can play a very important role in the decision making of a potential employee, especially for young people (Klein 11).

Industry Knowledge:

For obvious reasons, it has been suggested many times that industry specific knowledge is very important when opening a small business. There are two industries involved for each small business. One industry is the actual product or service that the owner is selling and the other is the running of the business itself. Many people who seek outside help often find themselves waiting to start their business until they have gained more experience by working for other companies or going to school (Ramachandran 64). Other studies have shown that having a college degree, employing a staff, or previously owning another business can increase the chances of success. The same study also found that young or inexperienced individuals have a lower success rate (Ramachandran 64).

According to researchers, the most important success variable is industry experience ("What It Takes" 1). Knowing how to make the product is very important in order to maintain a leadership position in a company. It is also very useful in order to ensure that the product or service is of good quality and will meet the customer's expectations. There is evidence that an entrepreneur's previous experience in the industry, previous knowledge of the market, and related business experience all have a positive effect on the business, specifically for the areas mentioned above (Harada 212).

There can be many obstacles and difficulties associated with a specific industry. Past experience can be considered the best way to be aware of these difficulties and how to plan for them. Training and formal education are also acceptable methods for foreseeing possible issues for the business (Aldrich and Martinez 44). Most small business owners have previous experience in their industry, but lack the experience of running a small business (Simpson, Tuck, and Bellamy 486).

Financial Resources:

While most small businesses started with an average of $10,000 for its initial investment, 53% of small business owners feel that it would have been easier to get started with more money ("What It Takes" 1). The SBA and SBDC's offer specialized financing for small business that is easier to attain than from conventional banks. Ramachandran states that securing the necessary funding prior to opening a business is a great way to improve an owner's odds of success (Ramachandran 62). Seventy-three percent of owners use personal savings as a part of their funding, 37% use commercial lines of credit, and 24% borrow money from family or friends ("What It Takes" 1). This number is greater than 100% because many businesses use more than one type of financing.

There are many different ways for small business owners to secure capital for their up-front expenses. This includes personal financing, partnerships, bank loans, venture capitalists, private equity capital, and many others. Niederkohr said that more small businesses are being financed through private equity capital than ever (1). A private equity capital firm is one that purchases a small to medium size firm, which gives the business access to funds and advise similar to that of a large business. The downside may be that the private equity capital firm becomes the owner, which means it has the final say on all business decisions.

Severe-Lows and Turnaround:

Large firms that have been around for a long time are able to stash away millions of dollars and create a financial safety net in case of slow times. Very few small businesses have this luxury, so they must be more careful during an economic or industry downturn. Many of the key areas have been discussed already, but short term planning can create a different view on a similar subject. There are five major mistakes to avoid during a downturn: hiring, financing, a six-month plan, partnerships, and poor sales leads (Comaford-Lynch 17).

It is important to consider the hiring of new employees because training can be costly and hiring a bad employee can cost a business thousands of dollars. In slow times, it is very important to focus on expenses before revenues because expenses are guaranteed and revenues are not. A six-month plan will help a business stay on track, instead of skipping around to the newest strategy of the month. Setting up partnerships can be a very time consuming process, which means that it is important to focus on short-term partnerships in the slow times to secure revenues soon. Sales leads are only useful if they have a good possibility of purchasing the businesses product or service, so it is very important to focus the business's efforts on making sales to prospective clients, as opposed to long shots (Comaford-Lynch 17).

Methodology:

A sample of 8 successful owners was interviewed using the attached 18 questions (Appendix A). Four unsuccessful business owners were interviewed using a slightly modified set of questions (Appendix B). Questions 11, 15, 17, and 18 were slightly different because the questions were dealing with issues about recovery, which unsuccessful businesses were unable to do. The interviews were designed to take less than 30 minutes, if the interviewee so chose. However, there was no time limit, so the interviews lasted as long as two hours, in many cases. The questions were derived from the perceived key aspects of starting a business, which were revealed in the literature review (Appendix C).

The Method:

This study looked at a small sample size of only 12 total businesses. David Silverman said that interviews were the best way to get a good understanding of the experience for a small sample size. Open-ended questions allow for interpretation, as opposed to closed questions that would appear in a survey (Silverman 89). While there was no quantitative data to analyze, the answers allowed for a deeper understanding of the social phenomena present in small businesses (Silverman 88).

The Sample:

In order to qualify for the study, the businesses had to meet certain criteria. The original owner must still own, or be a large part, of the business. Only the original owner can know what happened in the start-up process. The business had to be an employer firm with at least 2 employees (including the owner), but no larger than 500 employees. The last criteria was that they must been willing to spend at least twenty minutes with the author in order to complete the interview.

Some business owner's information was received through the help of the Small Business Development Center. Many of the businesses were contacted by the author through their store or office, which was located in a shopping center or on a main road. The remainder were found through personal contacts or references from previous interviewees. There was a wide variety of industries including retail, manufacturing, and direct sales. This variety was important to ensure that industry specific difficulties did not disrupt the data.

Success Indicators:

As discussed earlier, there are many different way to determine if a business is successful. This study will look at success as owner perceived. This was chosen because it does not require the owner to divulge any financial records, which would allow for easier access to subjects. It was also chosen because it is the main reason that owners open their business. "It is argued that success, as determined by an outside influence, lacks relevance if the entrepreneur does not view it himself or herself as successful (Simpson, Tuck, and Bellamy 4)."

Time is a very important indicator of success. As stated earlier, many businesses fail to reach the four year mark. This study required that successful businesses must have been in operation for four years in order to qualify. There was no minimum for an unsuccessful business, but they must have closed their business within the last 10 years, on or after January 1, 1998.

The Interviews:

Since this study is focused on small business, only businesses with 500 employees or less were considered. All of the businesses, except one, had 5 or less employees. There were no restrictions on the type of industry that the business must be in and they were all located in Lynchburg, Virginia or its surrounding counties. Only employer firms, those that have employees, were considered for this study. Employer and non-employer firms face different challenges in their start-up process, so employer firms were chosen because they have to deal with management and people issues, as well as the other issues.

The author conducted all of the interviews, in order to ensure that the questions were asked the same way each time. The interviews were done in person or on the phone because it helped to make sure that the owners understood the questions. It also allowed for the questioner to get a good understanding of the owner and the business he or she is, or was, in. Most of the face-to-face interviews were conducted on site for the business or in a restaurant. While there were only 18 questions, the owners often gave real world examples to clarify their answers. Many of the examples needed background information, so each interview was different. The answers were summarized on paper in note form; they were not recorded. These answers can be found in Appendices D and E.

The interviews were conducted in the first two weeks of February, 2008. Each business was contacted prior to the interview in order to ensure that they met the criteria and the interview in which they would participate. The first contact was also used to set-up an opportunity when the owner would have at least 20 minutes of time, so that all of the questions could be answered. Most of the owners expressed how busy they were on the phone, but once the interview was underway, most of the owners were enthusiastic about telling their story and helping with the study in any way possible. The owner's e-mail address was recorded in order for the results, in the form of the final paper, could be sent to them.

Based on the literature review, there were three main areas of interest that would be used for interpretation. These key aspects were planning, implementation, and characteristics. Planning involves all of the possible areas that the owner could have addressed prior to opening the business. This involves the use of outside help, the initial business plan, strategic planning, managerial skills, and industry knowledge. Implementation is completing the necessary work, either by the owner or through the employees. This consisted of the use of the business plan, modifying the business plan, time input, and the knowledge of what the business could have done better. Characteristics represent the unique situations or features of business that could have affected its chances of success. This included the scale of operations, number of employees, factors of success, focus, initial capital, time period to first profit, personal financial status, and severe lows in the business.

Results:

There were 8 sub-categories that the 18 questions fit into. Sections of these 8 sub-categories were then sorted into 3 main ideas. The first question does not fit into these questions because it was used to ensure that the business owner was answering the right set of questions, but it raises an interesting point. All of the unsuccessful business owners said that they considered their business to be unsuccessful because they were no longer making money. This was not a main focus for the successful owners. Owner of Business A said, "I consider the business to be successful because it lets me do my own thing and I enjoy what I do. We are also building capital." There was also a focus on building inventory, customer base and credit.

Outside Help:

There was use of outside help in both the successful and unsuccessful groups. Neither of the two groups had a significant amount of usage, though. The owner of Business D said, "I went to the SBDC when I was first starting out, but they just confirmed what I had already come up with, so I did not pursue it any further." On the opposite side of the spectrum, the owner of Business G said, "I worked very closely with the SBDC. They kept me focused and made sure that I was keeping on schedule with my business plan and revisions. When I fell behind, I definitely heard about it."

The Business Plan:

Only 2 of the successful businesses and 2 of the unsuccessful businesses had created a detailed plan when they were first starting out. Most of the businesses had a mental plan, but they never wrote it down or went through the formal business plan process. The businesses that had used the SBDC in their start-up process had created a business plan and most of them utilized them once they had started the day-to-day operations. The successful businesses followed their plans relatively closely and were making changes to it as their business and the industry changed. The unsuccessful businesses had put their plans on the shelves or were changing them very frequently.

Strategic Planning:

While 2 businesses put an effort into strategic planning, they never created anything written. The majority of the businesses in both groups did not focus on strategic planning. The owner of Business H said that strategic planning only became important to him when the business began to fail. The owner of Business J went through the effort of hiring an expensive strategic planner, who ended up giving him bad advice. This advice ended up being a main contributor to the collapse of his business.

Time Input:

Every owner, except one, worked more than 60 hours a week when they were first starting their business. Many of the successful owners found themselves working over 80 hours a week! One successful business owner started working part time, but quickly found that that was not going to be enough to keep the business open. All of the successful owners now work between 40 and 60 hours a week.

Management Skills and Employees:

Half of each group felt that they had sufficient management skills to start a business. Everyone found that they learned much in the process and made numerous mistakes along the way. Very few had formal training in management, but a few owners had backgrounds in management from their previous jobs. The owner of Business J said, "I was really good at my industry part of the job, but I focused way too much attention on keeping problem clients happy, as well as my employees. I learned the hard way that I was the boss and needed to act like it. My job was not just to make everyone feel happy."

Industry Knowledge:

Three out of the four unsuccessful owners felt that they had enough industry knowledge. Only 4 out of the 8 successful businesses believed that they knew their industry well enough. All 4 of the successful groups who did not have enough knowledge started their business with no previous knowledge in the industry. The owner of Business A went to a training session for two weeks prior to the opening of his business. He said if he were able to go back and start again, he would have hired someone with more industry knowledge early in the process.

Financial Resources:

Most of the unsuccessful group said they were able to get enough capital when they were starting their business. Most of the successful group received enough capital, but those that did not were able to source what they needed later. Only one owner said that they were still finding themselves short on capital. The remainder of the successful groups said that after they reached the 2 year mark, the banks that rejected them in their start-up were coming to them about lending money. Most of the business owners were comfortable in their personal finances, both successful and unsuccessful. Two owners, who were both foreign nationals, started with absolutely nothing. They opened their businesses because it was their only way to make money to feed themselves and their family.

Severe lows and Turnaround:

Most of the successful businesses said they experienced slight lows through their career, but very few had experienced any major ones. The owner of Business F said that he learned to appreciate the lows because it forces you to be innovative and is a big part of growth, both internal and external, for a business. The unsuccessful businesses all faced major lows, with only one business having multiple lows. Two unsuccessful business owners said their entire business was essentially a low once it was opened. The other experienced an unexpected major governmental policy change that left them in a position where they were unable to compete with foreign companies.

Planning:

These 8 sub-categories were sorted into the three major categories that will be used to determine the most important aspects of a business. The set of planning questions revealed a trend that is opposite of current entrepreneurship teaching. A larger percentage of unsuccessful businesses focused on planning than successful ones. Less than two-fifths of the successful businesses focused a significant effort in the traditional planning process, using mainly ideas in their head as the building blocks to their structure. Three out of the four unsuccessful business owners had good planning before and during the operation of their business.

Implementation:

The implementation questions revealed a considerable difference between a successful and unsuccessful business. All eight successful businesses are operating with good implementation practices. Two of the businesses started with poor performance, but took significant steps to change their business, which helped them become successful. Only one unsuccessful business, Business K, was employing a good implementation process, but the change in governmental law allowed for foreign competition to gain huge market share because of their cheap labor costs. Two other businesses were continually changing their business plan, which left their business scattered and unfocused. The other business did not make use of any good implementation methods through the entire process.

Characteristics:

While the characteristics of each company were diverse and unique, there were no significant patterns concerning the successful and unsuccessful groups. These unique features of each business defined who they were, the type of product they sold, and what they had gone through to get to where they are today, but made no connection with why they were or were not successful.

Discussion:

Out of the three main categories, implementation was the only defining difference between successful and unsuccessful businesses.

All of the planning in the world will never ensure that a business is going to be a success. It is very possible for a business to thrive without planning because they have a product or service that is in demand and their customer service is quick and friendly. Business L said that all of his extensive planning was slightly off because he was making his decisions based on his desperate want for the business to work. This was enough to make the business look better than it was, so the owner went through with the plan. He said, "Don't make a business decision based on emotion!"

The owner of Business J also went through a significant planning process, but was unprepared for many of the positions that a small business owner has to cover. He was very good with the product and service end of the business, but dealing with employees and the demands of customers was where he made the majority of his mistakes. While planning is able to give an owner a good idea about what is to come, it can not prepare them for the difficulties they will face.

This study found implementation to be the defining element in small business. Even a perfect plan will be useless if it is not put into practice successfully. The successful owners may not have had a formal written plan, but they had an idea on how they were going to find customers that wanted their product. Some businesses had a good visible location, while others found different ways to get their name out. Business G was able to secure work early because he brought customers with him from his old job, where he did the same thing for another business. His business flourished and wildly exceeded projections almost from the very beginning. Business E was able to grow consistently because he was an independent agent selling products for a large company. By selling under a name that everyone knows, he was able to gain customer trust quickly and advertising costs were relatively low. "I worked very hard in my early years and I was lucky enough to hire good employees early and not have to deal with the turnover that other similar businesses had."

These entrepreneurs used past knowledge and experience combined with new, innovative ways to keep their costs low, create or sell a quality product, and get it to the customer in a timely fashion. One method they used was to follow their internal plans closely in order to not stray too far from their original idea and focus. As the business grew and the market changed, these successful owners were able to modify and change their plan to help capitalize on opportunities that they might have missed if they were too focused on one outcome. Two of the unsuccessful business owners felt that they may have changed their plan too much or too often. This creates a situation where it is almost like not having a plan at all. Changing too often will create an unfocused agenda and set of goals, which leads to many mediocre projects, instead of a few outstanding ones.

Business F did not start off as successful as many other companies. He started with absolutely nothing and worked extremely hard to build the exceptionally successful business that he has now. "Passion and knowledge is important to get you through the early slow times." He also said, "You have to learn to appreciate the low times in your business because those are the times that force you to grow and be innovative." Business D works in a very competitive industry for the Lynchburg area. He ensured his success by working all of the hours that the store was open and made sure that he was maintaining a "no high-pressure sales" environment. The owner was very happy to see people just walking through the store and looking at what they had to offer.

Two successful owners started their businesses because they had nowhere else to go to make money. They started with nothing, literally. Extremely hard work and frugal living allowed them to grow and become very successful in their individual and very different endeavors. They started their businesses with no plan for the future; they merely existed in the present. Now, both of these owners find that planning is essential in order to maintain the rapid growth they have experienced over the years.

One very interesting figure was the lack of use of business plans for the successful business group. Only two of the owners had created a written plan when they were opening their business. The owners that did not have a plan were slightly hesitant to vocalize the fact that they did not have a plan. Even though their business was a success, they were almost embarrassed that they did not have a plan. Formal training puts a huge emphasis on the need for a strict business plan, which could be why the owners felt uncomfortable not having one. They were actually in the majority, but the academic business world made their lack of planning seem reckless or lazy. While the numbers say that having a business plan is not as important as teachers make it seem, most of the owners said that it would have been beneficial for them to have made a plan and that they may have been able to avoid a few pitfalls along the way.

Another interesting figure dealt with the need for previous industry knowledge in a new business environment. Katz and Green said, "...the amount of expertise is what distinguishes the more successful from the less successful firms (61)." Only 50% of the interviewed business owners said that they had enough industry knowledge prior to opening their business. Only one out of that 50% thought he had enough knowledge, but found out later that he did not; many owners had no previous knowledge about their product before deciding to open the business. This is important to consider for many aspiring entrepreneurs. There are still many businesses that just take work and people skills to be successful.

Further Research and Improvements:

There is a lot of room for growth with an experiment like this. Creating an even more in-depth interview, one that takes 2 hours, would be very helpful in fully understanding each business and its unique situation. The interviews that lasted longer gave the author a deeper understanding of why the business was successful or not. It would also be very helpful to get a larger sample of unsuccessful business owners. Each owner had their own story about why their business fell short of their expectations, which was very helpful in finding areas to avoid and areas in which to focus.

This study focused on extremely small businesses, for the most part. It would be helpful to also study larger small businesses, 50-500 employees, to see the different challenges they faced when starting their business and whether they started larger or grew from something extremely small. A final comparison would be to interview small business owners and large business owners to see where the overlap was. This type of study could help students or budding entrepreneurs decide which type of business is more suited for them.

If I could do this experiment again, I would have asked for the age of the owner when they were starting a business. One owner said that banks were more willing to lend to him because he was young and they knew he would have plenty of time to pay off the debt if the business failed. It would also be interesting to see if age had an effect on the success of the business.

I would have included a question asking the owners what they believed to be the key factor on their success. This would give important insight into owner perceptions of success and what was actually happening. I would also tape the interviews, so that they could be reviewed at any point in the analysis.

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Appendix A: **Questionnaire for Successful Business Owners**

1. Why do you consider your business to be successful?
2. What frameworks, if any, did you use to structure your business when you were starting out? (i.e. SBDC, class, book, etc.)
3. Did you create a detailed business plan when you were first starting?
4. Did you follow the plan closely, loosely, or very little?
5. Did you ever modify the plan later as the business matured?
6. How much, if any, did you focus on the need for strategic planning?
7. Did you start small scale or large scale?
8. How many hours a week did you work on average when you were first getting starting? And now?
9. Looking back, do you feel as if you had sufficient management skills to start a business?
10. How many employees did you start with?
11. What do you think was a larger factor on the success of your business: the product or the people in your business?
12. Do you feel as if you had enough industry knowledge prior to starting your business?
13. What was your main focus when you were first starting out?
14. Do you feel like you were able to secure enough capital in your initial start-up process?
15. How long did it take for your company to make a profit, if it has?
16. What was your financial status while you were starting the business?
17. Did you have any severe lows in the business? If so, what did you do to turn them around?
18. If you were able to go back and start again, what would you do different in order to better your business for the future?

Appendix B: **Questionnaire for Unsuccessful Business Owners**

1. Why do you consider your business to be unsuccessful?

2. What frameworks, if any, did you use to structure your business when you were starting out? (i.e. SBDC, class, book, etc.)

3. Did you create a detailed business plan when you were first starting?

4. Did you follow the plan closely, loosely, or very little?

5. Did you ever modify the plan later as the business changed?

6. How much, if any, did you focus on the need for strategic planning?

7. Did you start small scale or large scale?

8. How many hours a week did you work on average when you were first getting starting?

9. Looking back, do you feel as if you had sufficient management skills to start a business?

10. How many employees did you start with?

11. What do you think played a larger role in the downfall of your business: the product or the people in your business?

12. Do you feel as if you had enough industry knowledge prior to starting your business?

13. What did you focus on the most when you were first starting out?

14. Do you feel like you were able to secure enough capital in your initial start-up process?

15. Did your company ever make a profit?

16. What was your financial status while you were starting the business?

17. Did you have any severe lows in the business? If so, how many did you have before the business shut down?

18. If you were able to go back and start again, is there anything that you could have done differently to make your business a success?

Appendix C:

Section	Question Number
Outside Help	2
The Business Plan	3,4,5
Strategic Planning	6,7
Time Input	8
Management Skills and Employees	9,10,11
Industry Knowledge	12,13
Financial Resources	14,15,16
Severe-Lows and Turnaround	17,18

Appendix D : **Results for Successful Business Owners**

1. Why do you consider your business to be successful?
    a. Doing our own thing, enjoy what we do, building capital
    b. Pay all bills on time, freedom of time, build my own credit with help of the business, freedom of mind, feel peaceful
    c. Like what she does, on the way to be very good
    d. Growing customer base and inventory
    e. Name that everyone knows/trusts, worked hard for 19 years, no turnover, personal relationships with customers, fair amount of advertising, lots of referrals
    f. Internal Success, peace
    g. Delivery, Quality & Price, you are only as good as your last job, keep things small
    h. Customer service, product selection, community involvement

2. What frameworks, if any, did you use to structure your business when you were starting out? (i.e. SBDC, class, book, etc.)
    a. Husband was a commercial banker, previous knowledge about working with people, **No real framework**, life experiences
    b. College education to structure sole-proprietor, assistance from knowledgeable friends, then **SBDC**, which used classes, books, tutuorials
    c. **No frameworks**, broke off from another small business
    d. Talked to the SBDC, confirmed thoughts, **did not really use them**
    e. **State farm helped structure**, independent contractor can only sell to base company
    f. **No real framework**
    g. **SBDC and prior experience**
    h. Partnered with similar store in different geographical location

3. Did you create a detailed business plan when you were first starting?
    a. No – looked at the basics, had goals and projections
    b. Yes – planned income, planned costs, and how to control both
    c. No made one 15 years later though, big help
    d. No – Internal, nothing formal
    e. Not so detailed – 19 years ago though
    f. No, made an internal one
    g. Yes – had to for SBDC and loan
    h. No – had internal one and basics

4. Did you follow the plan closely, loosely, or very little?
    a. Closely – customer satisfaction
    b. Extremely close
    c. Now – closely
    d. Very little
    e. Loosely

f. Loosely
g. Yes in the very beginning, now way past projections
h. Closely

5. Did you ever modify the plan later as the business matured?
   a. Yes – business grew and changed and so did capital
   b. Yes – situations made it impossible not to change
   c. Yes later
   d. Goals inside head – yes
   e. Annual update – Yes
   f. Yes
   g. Sometimes yes, sometimes no, SBDC made sure I keep up with it
   h. Yes

6. How much, if any, did you focus on the need for strategic planning?
   a. Some – always looking for new opportunities and be creative
   b. Very limited – mainly short term planning
   c. Always did, never put it on paper
   d. Some, nothing formal, lots to plan for, mostly short-term
   e. Not that much, base company provides good direction
   f. Always thinking about the future, making forecasts
   g. Very little
   h. As the business began to fail, planning became more important

7. Did you start small scale or large scale?
   a. Small
   b. Very small scale
   c. Small
   d. Small
   e. Small
   f. Small
   g. Small
   h. Large, relative to market

8. How many hours a week did you work on average when you were first getting starting? And now?

a.	50-60 hrs	40-50	
b.	105 hrs	60	
c.	80-90	60-65	
d.	70-80	60	40-45
e.	60-70	40-45	
f.	80-85	50-60	
g.	70	60	
h.	<20	50	

9. Looking back, do you feel as if you had sufficient management skills to start a business?
    a. Yes, could have had more formal training though
    b. No, learned through experiences (mistakes)
    c. Lacking some, owner was more mechanical based
    d. No formal training, but did ok
    e. Yes, background in mgmt from previous job
    f. Yes
    g. Yes, ran a division for a larger company before branching off
    h. Yes, project mgmt before

10. How many employees did you start with? (including owner)
    a. 2
    b. 5 – all family members
    c. 3
    d. 3
    e. 2 full 1 part time
    f. 1
    g. 3 full time, 1 part time
    h. 2

11. What do you think was a larger factor on the success of your business: the product or the people in your business?
    a. Both 50-50
    b. The people – hired good employees
    c. Both 50-50
    d. Both 50-50
    e. The people
    f. The people
    g. The people
    h. Both 50-50

12. Do you feel as if you had enough industry knowledge prior to starting your business?
    a. No, did not know anything about the industry before hand, franchise gave intense training for 2 weeks though
    b. No industry knowledge at all
    c. Yes, worked many years before in same industry
    d. Yes, impossible w/o
    e. No, base company helped teach
    f. Yes, passion and knowledge got him through the early slow times
    g. Yes, 15 years prior
    h. No

13. What was your main focus when you were first starting out?
    a. Learning the business, help people get what they need, get more customers

b. Make money to survive, then make a profit
c. To be successful, make money
d. Try to build inventory, change the look of the store
e. Try to bring in new business/customers and expand
f. Use passionate and product to help serve others
g. Increase customer base, reduce risk
h. Learn how to run a small business/make money

14. Do you feel like you were able to secure enough capital in your initial start-up process?
    a. Yes, through bank
    b. No, still haven't
    c. Yes, mostly personally financed and loan from bank
    d. Yes, family financed
    e. Yes, not capital intense, personally financed
    f. No
    g. No, only got 75% of what was asked for
    h. Yes, but looking back it was misused

15. How long did it take for your company to make a profit, if it has?
    a. 3 years
    b. 2-3 years
    c.
    d. First year
    e. Made profit early, but good at 5 years
    f. 2 years
    g. First month – started with a couple customers from other job
    h. 2 years

16. What was your financial status while you were starting the business?
    a. Didn't rely on this business for income, couldn't afford to lose money on it
    b. Poor, last resort to feed family
    c. Wanted to do something different, comfortable
    d. Was doing ok, no debt
    e. Good enough to afford significant pay cut to invest in business
    f. Started with nothing
    g. Well-off, had to be comfortable
    h. Not wealthy, partners were, combine passion with a way to make money

17. Did you have any severe lows in the business? If so, what did you do to turn them around?
    a. Not really, not grown as fast as hoped
    b. None
    c. Yes, had to wait for economy to bounce back
    d. Not really, learned the cycle of the year

e. No, grew every year
f. Slight ones, be innovative, appreciate the lows
g. Employees leaving, no solution yet
h. After 7 months, had to restructure entire business, would have failed

18. If you were able to go back and start again, what would you do different in order to better your business for the future?
    a. Would have been nice to have another person who had more industry knowledge
    b. Would have used books to figure out what order to do things, get better insurance, use more available resources
    c. Would not have opened a 2nd business, listened and paid more attention early instead of putting it off
    d. Nothing major
    e. Nothing
    f. Get more strength from God, God is in the details
    g. Try to start an employee owned business, keep them motivated
    h. Borrow slightly more money, spend less, have some on reserve, anticipate how to meet expenses, understand cash flow, be better prepared

Appendix E : **Results for Unsuccessful Business Owners**
*note: Business L asked to keep his answers private

1. Why do you consider your business to be unsuccessful?
    i. Didn't make any money, barely broke even
    j. Too focused on customer satisfaction, too nice to customers
    k. NAFTA sent all sewing business to Mexico, lost 2 main customers, business had been structured towards manufacturing, not enough time/money to switch to retail, **No longer profitable**

2. What frameworks, if any, did you use to structure your business when you were starting out? (i.e. SBDC, class, book, etc.)
    a. Own outline and base company info
    b. SBDC, book, hired experts in Start-ups, interviewed people, family friends
    c. Used industry knowledge and personal experience

3. Did you create a detailed business plan when you were first starting?
    a. No, not detailed
    b. Not detailed, but a plan
    c. No, when industry changed, made one

4. Did you follow the plan closely, loosely, or very little?
    a. Little, followed base company plan
    b. Loosely
    c. Closely

5. Did you ever modify the plan later as the business changed?
    a. No
    b. Yes, maybe too much, didn't consider long term expenses
    c. Yes

6. How much, if any, did you focus on the need for strategic planning?
    a. None
    b. Brought in a strategic planning consultant, made bad strategic decisions
    c. Mental planning, lots

7. Did you start small scale or large scale?
    a. Very small scale
    b. Small scale – expanded quickly
    c. Small scale

8. How many hours a week did you work on average when you were first getting starting?
    a. 25-30 part time
    b. 60-70
    c. 60-70

9. Looking back, do you feel as if you had sufficient management skills to start a business?
    a. Yes
    b. No, I needed to know that I was the manager/owner, not someone else
    c. Yes, worked as plant manager

10. How many employees did you start with?
    a. 2
    b. 2
    c. 5

11. What do you think played a larger role in the downfall of your business: the product or the people in your business?
    a. People –product was good
    b. People – owner fault, trying to please everybody
    c. Product

12. Do you feel as if you had enough industry knowledge prior to starting your business?
    a. No
    b. Yes, enough marketing, not enough agency experience
    c. Yes

13. What did you focus on the most when you were first starting out?
    a. Placement of product, knowledge of how they worked
    b. Business development, should have focused more on own mktg
    c. On the operations, getting the right equipment, getting the product right, expanding

14. Do you feel like you were able to secure enough capital in your initial start-up process?
    a. Yes
    b. Used personal capital, had enough
    c. No

15. Did your company ever make a profit?
    a. No
    b. Yes
    c. Yes

16. What was your financial status while you were starting the business?
    a. Normal, wanted to do something less boring
    b. Very stable, wanted to do something different
    c. Finances were good, wanted to stay local and in the same industry

17. Did you have any severe lows in the business? If so, how many did you have before the business shut down?
    a. Entire thing was a severe low
    b. Yes, 4 right after each other
    c. One low, last 4 years, never recovered

18. If you were able to go back and start again, is there anything that you could have done differently to make your business a success?
    a. More time spent on placement and planning, find a partner with more contacts
    b. Keep overhead down as much as possible, focus on narrower niche, get everything in writing, hire more experienced people first, not so many who need to be trained, market better, use outside capital more
    c. Wouldn't have expanded as quickly, made overhead too high, locked into leases