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A Realist's View of the Small Business Landscape

Small business success plays a vital role in this country's mythology. You know the stories: the poor immigrant with 50 cents in his pocket who goes on to run a chain of 20 restaurants, the husband and wife who toil away for years and get the one big break that makes them millionaires, the grandma who makes cookies in her kitchen and ends up running a company with hundreds of employees, and the two nerds who create a software program in their garage and then sell it to IBM for a few billion dollars.

We love these stories because they capture the American spirit. The rugged individual who triumphs against all odds is quintessentially "us." Yet, growing a company is by no means a Horatio Alger yarn, and the myths are often offset by a more sobering reality. A special small business report in the *Wall Street Journal* in 2004 led off with the following:

> *Last year, the U.S. gave birth to over half a million new firms. Equally telling, nearly the same number of firms closed their*

doors in the same period. What this means is however much we glorify and obsess over success in the workplace, the notion of failure must go hand in hand with it.

That's an important point. While there are indeed factors that make it a good time to be an entrepreneur in America, there are also factors that make it a challenging time to be running your own business. In fact, if someone asked me whether it is the best of times or the worst of times for small business in America, I could argue either point of view. In my opinion, the current state of small business could be accurately described as both the best and worst of times—and I explain why later in this chapter. But first, let's take a realistic look at what the term *small business* encompasses.

WHAT IS SMALL BUSINESS?

Is there really any such thing as small business? The term conjures up a wide range of imagery. The U.S. Small Business Administration (SBA) defines both a sole proprietorship and a firm with 499 employees—and everything in between—as being a small business. An individual selling quilts at a monthly flea market would seemingly have little in common with a 400-person software design firm. Obviously, lumping all small businesses like these together is ridiculous. In some ways, the SBA has admitted as much, in that its own definitions for what constitutes a small business run for 29 pages. (A 2004 effort to simplify the description continues.)

So here are the facts. You may think you don't need to know this to grow your business, but I encourage you to stay with me. The U.S. Census Bureau 2002 report showed that there were 22 million small businesses operating in the United States. However, look at the numbers a little more closely, and you'll quickly see that approximately 17 million of these businesses don't have any employees. Some are simply shells set up by accountants and attorneys for tax purposes. Others are enterprises that can't or don't want to get any larger than they already are. Despite not having any employees, you are probably a small business if:

- You sell candles, cleaning products, or cosmetics on a very part-time basis and make a few hundred dollars in profit per year.
- You lost your job in a corporation but got hired by the same company as an independent contractor.
- You are 70 years old and retired, but you do a little consulting on the side.
- You have a booth at local art festivals to sell your handmade crafts.
- You buy things and "flip" them for a profit: cars, rental houses, collectibles, and so on.
- You live off the income from your investment activity.

There's nothing wrong with these enterprises. They make money for somebody, so the IRS rightfully considers them more than a hobby. Some of them even give people a pretty luxurious lifestyle. But these "small businesses" seldom lead to more employees being hired, and very few of them grow beyond a one-person entity. In many cases, the person conducting the work doesn't want the business to grow. The intention is to make a living or earn a little extra spending money.

Other nonemploying firms are truly small businesses interested in growth. The following are examples of the nonemploying firms interested in growth versus the comparatively static types previously listed:

- You've worked in the same industry for a number of years, and you've recently decided to forge out on your own to build the proverbial "better mousetrap."
- You are a skilled craftsperson who hasn't needed another person yet but hopes to reach that point someday soon.
- You've been in business for quite a number of years as a sole practitioner but are now giving serious consideration to expansion.
- You've been in business only a short time but have always had a goal of growing your customer/client base.
- After years of hitting singles as a one-person business, a customer approaches you with a home-run opportunity that you can't fulfill by yourself.

For the purposes of this book, I assume that a business interested in growth either is or plans to be an employing firm. Are there examples of one-person firms that achieve growth through outsourcing and "virtual teams"? Absolutely! Technology is making this easier and easier every day. But at this point, these companies are in the distinct minority.

This book targets those who want to grow their business. Throughout, I assume that you already have a small business—probably with employees—or that you're intending to get to that point sooner rather than later. Most of the observations I make are aimed at helping you grow a business that probably has at least a handful of employees but hasn't gotten so big that it has taken on a corporate life of its own. It's in the size range of roughly 5 to 99 employees that a lot of the important growth milestones take place in a company's development. However, these numbers are rather arbitrary and are used primarily because the government divides up segments of data at these points. If your business is smaller than five employees—but you're trying to grow—you'll also find just as many good insights and ideas that will help you get to the next level.

Understand, however, that it is the fast-growing companies that really create job growth. The Ewing Marion Kauffman Foundation, which promotes entrepreneurship in America, notes: "New fast-growth companies comprise around 350,000 firms out of a total of six million U.S. businesses with employees. Yet, this small base of companies created two-thirds of net new jobs in the 1990s."

The Small Firm

If you have at least one employee, you have made a first dramatic step toward growth. That first hire changes everything. It changes your division of labor, day-to-day responsibilities, productivity, cost structure, and tax status. Firms with even one full-time employee have more in common with those who have a handful than they do with most nonemploying firms.

In 2001, there were more than 3.4 million firms that paid some payroll but had four or fewer employees. More than 5.5 million people work for these firms. Granted, some of the companies are undoubtedly cases of a nonperforming family member being paid for tax purposes, but this is a huge group nonetheless. The category represents over 60 percent of the employing firms in this country. It also represents the wellspring from which many fast-growth companies emerge.

The 5- to 99-Employee Firm

This is the category that most big business marketers think of when they are targeting "small business." More than 2 million companies fit into this category, employing more than 35 million Americans. This is where you find the emerging growth companies. It is here where the first big leaps in growth occur: moving from a half-million dollars in revenue to $2 million, from $2 million to $10 million. Every year, *Inc.* honors the 500 fastest growing, privately held companies in this country. The majority of these Inc 500 firms fall within this category.

Don't get me wrong; a lot of companies in this category do not fit my definition of *growing.* A significant portion are indeed declining. However, it is within this category that I usually find the most current and compelling ideas on growth.

The 100- to 499-Employee Firm

To have reached this level, firms in this category have already experienced at least one period of significant growth. Almost no one does a start-up with 100 or more employees. According to the SBA, in 2001 there were more than 85,000 businesses in this category. While they represent less than 2 percent of all employing firms, more than 16 million people work in companies this size.

MOST MISLEADING SMALL BUSINESS MYTHS

As mentioned before, I can argue that this is both the best and worst of times for small business in America. Whenever I tell people I have good news and bad news, they want to hear the bad news first to get it out of the way. I know that I risk losing your enthusiasm (and believe me, you're going to need plenty of that) by starting this book on a cautionary note. None of us can succeed, however, until we first acknowledge the difficulties inherent in managing a private enterprise. Despite what most politicians and many people in the general public think, small business success is not quite as easy as some would have us believe. As a serial entrepreneur buddy of mine says, "It's gotten real easy to start a new business. Everybody wants to help you now. The problem is, it's getting harder than ever to actually make a buck at it." Seventy-two percent of respondents to a May 2004 *Inc.* poll agreed: "Entrepreneurship is getting harder."

The following positive myths about entrepreneurship are repeated so often, and in so many ways, that many people accept them as facts.

Myth 1: Business Owners Have More Independence

If you are a small business owner, especially one with a family, you know what a joke this myth is. The small business owner that Hollywood portrays is talking on her cell phone from the beach house, golfing with his buddies in the afternoon, or attending social functions during his many free evenings. She has loads of time to go to the kids' ballgames and recitals or take leisurely vacations. It's a nice life indeed. Those workaholics who neglect their spouses and kids or spend late nights at the office don't own their own company—they work for heartless corporations.

We know this portrayal is not true. According to the 2003 Inc. 500 survey, nearly a third of these fast-growth company heads work more than 60 hours a week.

Running alongside this notion of personal independence is the idea, "Finally, I'll be my own boss." For many, this is one of the primary reasons they start a small business. They've had it with being told what to do. But as most business owners soon discover, they've simply traded one boss for a whole host of other bosses. The simple act of incorporation calls for properly dotted i's and crossed t's in triplicate. Whether the lender is your brother or your banker, once you borrow money, you've created a potential supervisor. The state and federal revenue services demand quarterly reports just like any manager.

Once you hire your first employee, you've really got someone to answer to. Employees are funny. They expect you to perform a variety of functions especially for them. They assume that their problems outweigh any you may have. They consistently second-guess your decisions. They expect you to be there when they arrive and still be there when they leave. Sounds just like a boss to me!

One big difference, though: These bosses expect you to pay *them* for their efforts, whether you have the money in your account or not.

Please understand this. I am far from being anti-employee. Chapter 8 is devoted entirely to the importance of people in your organization, and it's the primary theme throughout the book. I'm simply trying to point out how taxing all of these new overseers can be. It's one of the biggest surprises for the emerging growth business owner. Consider yourself forewarned.

Myth 2: Business Owners Make a Lot of Money

If you are a small business owner already, this one doesn't need much of an explanation. Many wannabe entrepreneurs fantasize about leaving the confines of working for someone else. They think starting their own company will make them wealthier than being an employee. In some cases it is true, but on the whole, it is not.

According to the National Federation of Independent Business (NFIB), the average business owner makes between $40,000 and $50,000 per year. That's not terrible—it pays the bills—but a lot of skilled people could make that amount or more working for someone else with a lot less risk and fewer hours.

For a *growing* small company, however, the rewards can indeed be great. Among the Inc. 500 class of 2003, 78 percent reported a net worth of over $1 million. Nearly half were multimillionaires. One in five was worth more than $7.5 million. Keep in mind that these are the elite, however. The median five-year growth rate of these 500 companies was a whopping 692 percent.

The lesson from these statistics is this: Running a business that is surviving will make you a living, but perhaps less than you would make working a salaried job with someone else's company. Run a company that is growing rapidly, however, and there is serious money to be made. The distinction is in the pace of growth.

In 1996, authors Thomas J. Stanley and William D. Danko published their landmark book, *The Millionaire Next Door* (Marietta, GA: Longstreet Press, 1996). Their 258 page book has much to say about the wealthiest people in our country. The quick, one-line synopsis most people remember from this book is that most millionaires work in unassuming, everyday endeavors. In other words, they are, on the whole, welding contractors and pest controllers, not investment bankers and trust fund recipients. To many, including me, this was a fascinating revelation. It also helped fuel an ever-growing fire of enthusiasm for entrepreneurship.

It is also important, however, to fully understand the authors' findings. It is true that more than two-thirds of the millionaires in this country can be described as self-employed. The authors' research makes that very clear. However, it does not follow to say that the self-employed are most likely millionaires; far from it. While this book was written several years ago, the misconceptions some people took away from it still permeate public consciousness.

Myth 3: Business Owners Are Funded by Venture Capital and Angel Investors

The National Commission on Entrepreneurship sums up this myth nicely in its 2001 report, *Five Myths About Entrepreneurs:* "Of all the myths and misunderstandings surrounding entrepreneurship, the role of venture capital is perhaps the most exaggerated." Venture capital and money from "angel" investors flowed like water in the middle and late 1990s, but most of it went to high-risk/high-potential-reward investments in tech companies, especially on the West Coast. According to the Commission, "In 1999, California received slightly more than 43 percent of all new venture capital investment—a whopping $20.8 billion. Of this total, nearly $17 billion was invested in Northern California."

There were more than 600 venture capital firms chasing the next big thing in the year 2000. Once the tech boom busted, the firms and money flows went with it. At the end of 2003, the surviving venture capital firms (down to fewer than 200) were sitting on about $84 billion in capital, but at least half of that was estimated to be earmarked for second-round and third-round funding of existing obligations. Only $18.2 billion was actually distributed to companies. Even though the funds were flush with cash, they were still being very picky about where they put it.

What happens to the lucky souls who do manage to score venture capital funding? It's not always a gift from Santa Claus. Owners, who have staked their life savings and reputation on a business, often end up giving up majority ownership and control. In some cases, they get pushed out of their own company.

There is a commonly held legend of the company that gets outside funding and makes its founders rich. The team then takes the company public in an initial public offering (IPO), and everyone gets even richer. Sure, it has happened now and then, especially during the height of the dot-com bubble, but those fairy tale endings represent a small sliver of the entrepreneurial world. That's not to say you'll never need, want, or receive venture capital; I just wouldn't count on it. Among the 2003 Inc 500, only 12 percent had received any venture capital funding since start-up. Only 17 percent had raised private equity at any point since they began.

So where does small business financing come from? If you are running a company yourself, you probably know: maxing out credit cards, arm-twisting friends and relatives, draining the nest egg, leveraging the house, or, in many cases, all of the preceding. For most small business owners, financing is far less romantic than the magazine cover stories would have us believe.

Even companies that are successful today generally started out with relatively little capital. Among the Inc. 500 class of 2003 winners mentioned earlier, 61 percent had start-up capital of $50,000 or less. Of those, more than half had less than $20,000.

If your dreams have been spurred by the dot-com era stories of a venture-funded Ferrari, decadent parties, and company outings to Tahiti, let them go. Most private companies are funded by whatever the owners can scrape together.

Myth 4: Small Business Creates "All the New Jobs"

If you say something enough times, people start to believe it without questioning the underlying logic. Bad statistics get thrown out in some publication and, after being repeated enough times, become unquestioned facts. One of the best examples is the idea that small businesses create almost all the new jobs in America.

Politicians have done more than their part to perpetuate this myth. Pull up any politician's talking points on small business, and you're bound to see the assertion that small business creates all or most of the new jobs in the United States (see "The Little Engine That Could"). I recently attended a small business summit in Washington where in one single morning, various speakers told the audience that small business created "over half," "70 percent," "80 percent," and "over 85 percent" of all new jobs in this country.

The Little Engine That Could

Small business is the engine of economic growth in the United States.

—Vice President Al Gore, 2000

On a daily basis, small businesses demonstrate they are the economic engine that drives our economy. When big businesses are struggling and laying off workers, new small businesses have started up while established small firms have grown.

—Senator Olympia J. Snowe, 2003

Small business is the engine that drives our nation's economy, representing 97 percent of all businesses and responsible for 75 percent of new jobs created in the U.S.

—Representative Jim Moran, 2004

Seventy percent of new jobs are created by small business owners.

—President George W. Bush, 2004

[Small business] is the engine that drives our economy and provides most of the nation's job opportunities.

—Senator Kit Bond, 1997

Small businesses provide some 70 to 80 percent of jobs in America.

—Senator Arlen Specter, 2004

The small business community is the major generator of jobs in America, has been for the last 12 years.

—President Bill Clinton, 1993

(Continued)

Employment experts agree that the primary fountainhead of jobs in America is small business. We read daily of large corporations handing out thousands of pink slips, but small business entrepreneurs continue to combine their time and talent with capital and guts—and the result is jobs.

—Doug French, Nevada Policy Research Institute

Small business owners are the engine that drives the U.S. economy. They create 75 percent of the new jobs in this country.

—Maura Donahue, chair, U.S. Chamber of Commerce Small Business Advisory Council, 2004

Small businesses are the primary engine for job creation in America.

—Treasury Secretary John Snow, 2003

Small business employers are responsible for the majority of new jobs created in this country.

—Labor Secretary Elaine L. Chao, 2003

Large corporations shed jobs and wreak havoc during times of recession. On the other hand, small businesses are the backbone of our economy; they create 75 percent of all new jobs.

—Representative Nydia Velazquez, 2003

Three-quarters of the net new jobs from 1990 to 1995 were created by small businesses. They are the engine of our nation's economy.

—Representative Ed Bryant, 2003

Small businesses are the engine of the American economy. They create 75 percent of all new jobs

—JohnKerry.com, 2004

The job creation controversy has been raging for years in political and economic circles. I have tried very hard to understand the core arguments made by both sides. To better understand, I have read and listened to and e-mailed many people on the subject. After months of dedicated study, I have discovered that most government officials, economists, and other scholarly experts subscribe to two basic schools of thought as it relates to small business and job creation:

1. Small business creates practically all of the new jobs in this country.
2. Small business creates practically none of the new jobs in this country.

My concern is simply this: The more we hear about small business job creation, the more positive the spin seems to become. I don't have any specific studies that point to it, but I know the average person in this country believes that small business in general is booming. I'll have to admit, when I started this book, I believed this was true. However, when I started looking for the employment numbers to prove it, I slowly discovered a more sobering truth.

I looked very closely at the most recent Bureau of Labor Statistics numbers for small business (1990 through 2001). These are the same statistics the SBA uses for many of its research efforts. I discovered that, while the overall economy has grown and small business has grown with it, the growth has not been proportional. For example, in that 11-year period, the percentage of people in this country who work for businesses with more than zero but fewer than 99 employees fell by more than 8 percent. The payroll generated by this category as compared to total U.S. payroll also fell by more than 10 percent. At the same time, the number of people working for businesses with more than 500 employees grew by more than 7 percent, and payroll for the category grew by more than 6 percent. That didn't make any sense. Everybody knows that small business drives this economy. I became confused and did a little historical research.

In the early 1990s, Nobel-prize-winning economist Milton Friedman (one of the few economists most of us have ever heard of) wrote an article for the *Journal of Economic Literature* titled, "Do Old Fallacies Ever Die?" Friedman presented strong evidence that small businesses' job-creating potency is one of the most durable falsehoods of America's economic politics. Nonetheless, the SBA continued to release studies and reports pointing to the strength of job creation by small business. "Small Business Job Generation: From Revolutionary Idea to Proven Fact" was a typical title of the agency's research. By the end of the 1990s, the story became, in the immortal words of Lewis Carroll, "curiouser and curiouser." University of Chicago's wunderkind Dr. Steven Davis continued to find the opposite to be true. His work concluded that the job-creating prowess of small businesses rests on misleading interpretations of the data. In 1999, former SBA economist David Hirschberg published *The Job-Generation Controversy: The Economic Myth of Small Business* (Armonk, NY: M. E. Sharpe, 1999). Describing himself as a "whistle-blower," Hirschberg tried to explode this myth that small business creates most of the jobs.

What's going on here? It's complicated but, in the simplest terms, I have determined that:

- You shouldn't divorce job creation data from job destruction data.
- You can't define small business job creation unless you can define small business in general.

- Everybody is right and everybody is wrong on the job creation myth. Few tell the whole story.
- There are lies, damnable lies, and small business statistics.

So why does any of this matter to you, a person trying to grow a business? I am concerned that popular opinion has been overly influenced by rosy job-creation assertions. When politicians or the popular media get hold of these figures, it's tempting to portray small business ownership as an easy path to success. It's not. Ask anyone who has done it. There's absolutely nothing easy about it. Don't be lulled into a false sense of security by misleading statistics that refuse to die.

Myth 5: Slow and Lumbering Big Business Is Vulnerable to Quick and Agile Small Business

There are some good reasons this myth exists. Yes, big companies can be slow to react to new opportunities and have their areas of weakness. In General Electric's 1999 annual report, then CEO Jack Welch said, "For 20 years, we've been driving to get the soul of a small company into this sometimes muscle-bound, big-company body . . ." But we can't ignore the powerful sticks big companies wield. They can fight with deep pockets, proprietary research, and what I call "the three power L's": lobbying, litigation, and legacy. Thanks to their large campaign contributions and well-funded advocacy groups, big business has the ear of government at the federal, state, and local levels. Have you ever been done wrong by one of the big boys? Good luck collecting any money using the court system. Through legal maneuvering and abundant resources, big business can keep your case file open long beyond your financial ability to see it through. There's also something to be said for status quo, reputation, and years of community goodwill. Like most bureaucracies and institutions, big businesses are self-perpetuating. In some ways, they are similar to a medieval castle. The longer they have been around, the stronger their defenses seem to get.

Big business can marshal an army of people to quell any perceived challenges. Roughly half of all Americans work for companies employing more than 500 people. Wal-Mart alone employs approximately 1.5 million people—about equal to the entire populations of Wyoming, Vermont, and Washington, DC, combined. General Electric and Ford both employee over 300,000 people, which would make for a medium-size city. Those numbers don't even count the thousands of jobs that have been outsourced or transferred to suppliers.

And the big keep getting bigger. Las Vegas is one of the fastest growing cities in the United States, and it has one of the lowest unemployment rates. Is this because there are lots of energetic entrepreneurs starting new companies? Is it because of hundreds of private enterprises needing new people? Not exactly. When MGM Mirage and Mandalay Bay merged in 2004, the combined company employed 64,000 people. That's a lot of zeros for one city. It would take 16,000 four-person firms to employ as many people as this one casino and hotel chain.

As a speaker, I tend to spend a lot of time in just a few metropolitan areas. Las Vegas is one of them. I've spoken at local small business events in Las Vegas on many occasions over the years. The gaming industry directly affects business owners whether they are building new homes miles from the strip or running a small chain of convenience stores. When the big business gaming industry gets a cough, these guys all come down with something.

Seattle, Washington, is rightly known as a hotbed of innovative entrepreneurism. But anyone who lives there knows that Boeing and Microsoft are the thermometer by which community business health is measured.

In any of the small businesses I personally managed, concerns about what "the big guys" would do consistently kept me up at night. I worried about their chances for setting their sights on my little corner of what they might perceive to be "their market." I was equally concerned about what these lumbering giants would do accidentally. As the old saying goes, "When the elephants dance, it's the ants that get crushed." I always knew my competitive advantage against these larger players, but I also recognized how formidable a threat they could be. I never underestimated them.

THE FOUR MOST ENCOURAGING SIGNS FOR SMALL BUSINESS OWNERS INTERESTED IN GROWTH

I promised some good news about why this could be seen as the best of times for small business, so here we go. To counter the myths, I call them the four most encouraging signs.

Encouraging Sign 1: It's Cool to Be an Entrepreneur

Throughout the history of industry and commerce, positive impressions of entrepreneurs were much more rare than they are today. Little old ladies didn't brag about their granddaughter or grandson the entrepreneur until very recently. Who knows exactly how or why this shift happened. Perhaps the Reagan revolution of the early 1980s, with its emphasis on free enterprise and the power of the individual, started the trend. I tend to think the trend pushed the revolution. Certainly the disruption caused by the shift from a manufacturing focus to an information focus brought on a new type of business leader. Suddenly, nascent start-ups by unlikely characters such as Jobs and Wozniak could strike legitimate blows against giant enemies such as IBM. Whatever the cause, being an entrepreneur became cool, and the cachet has increased over the past two decades.

When spreading the good news of small business, I often tell audiences that entrepreneurs are now like rock stars. Think about it—successful entrepreneurs have become household names: Gates, Turner, Branson, Trump, Dell, Bezos. Even outside the business community, these names are well known. Successful entrepreneurs are admired and adored. People flock to hear them speak at events. We know when they get married or divorced, and the paparazzi even hound them.

Maybe the local growth business owner doesn't have the paparazzi following him or her around, but you probably know who the stars are in your community. They are featured in the local business press and held up as examples to which we should aspire. If you have any success at all in your business, regardless of your size, you can count on a steady stream of requests for interviews from journalists, photographers, and "experts" like me who are writing books. Who would have ever guessed that an entrepreneur like Donald Trump would host the number one television show in America? Frankly, I think Trump's ego-driven style and dog-eat-dog message has done as much harm as good for the small business community, but that's not my point. The point is: It's nothing short of incredible that the American public is so enthralled by the notion of entrepreneurism.

Not only have business owners become more like rock stars, but rock stars have become more like entrepreneurs. We read as much about Madonna's prowess as a "savvy business person," as we do about her music. Teenagers know as much about Sean "Puffy" Combs' (aka P. Diddy's) net worth as they do about his rhymes. The business press continually highlights the acumen of rock stars such as Bruce Springsteen, Mick Jagger, and Bono. In 2004 alone, *Inc.* featured burgeoning entrepreneur Jon Bon Jovi and rap music mogul Russell Simmons on its cover. Fascinating. Somehow I can't imagine Buddy Holly or Jimi Hendrix aspiring to be on the cover of any business publication.

Encouraging Sign 2: Banks Are Increasingly Small Business Friendly

A few decades ago, it wasn't easy to get a small business loan from a bank. Banks held all the leverage, and you would never go to one of "the big guys" to fund your business. Only the relatively small, local banks took the time to go after your market. According to a Federal Reserve study from 1996, small banks (under $1 billion in assets) lent nearly two-thirds of the money small business owners used to capitalize their companies.

However, in recent years, competition among banks has increased. Small banks still target small business, but big banks have gotten in on the game as well. According to MSNBC, from just October 2003 through July 2004, Bank of America, the largest lender to small business in the United States, reported over 10,000 new small business loans, for a total of $372.9 million.

Perhaps the big banks have figured out that some entrepreneurs end up being downright wealthy. Small business can be a great entrée into the world of high net worth individuals. Or the person's business goes from generating $100,000 per year to generating $10 million per year. If the bank can gain that business early, they know it might lead to bigger things down the line.

It has also gotten easier for banks to analyze and quantify the risks. Scoring methods changed the entire credit industry by making it easier for lenders to match rates to credit risk for things such as a car or home. In the late 1990s, big banks started using standardized scoring systems that also decreased the risk for small business loans. This allows banks to bundle loans and sell them to investors on the secondary market.

According to an SBA report in 2002, commercial banks supplied 57 percent of all credit outstanding to small business, with an overall loan balance of $484 billion. The percentage is not much lower for the fastest growing companies either: Among the Inc. 500 of 2003, half looked to banks for more capital.

The preceding reports do not automatically mean the big banks are the best ones to work with. As the SBA's state-by-state reports (at www.sba.gov/advo/stats/lending) point out, many state and regional banks work very hard to meet the needs of small business and are still tops in total dollars loaned to owners in specific areas. I can also attest to the dedication of a big bank like Bank of America, as I have spoken on their behalf around the country on many occasions. The bottom line is: There is more competition than ever for small business's banking dollars, which is certainly a net positive overall. The days when you had to go into a bank with your head down, hat in hand, asking for a loan are over—provided you have done your homework.

In August 2004, the NFIB found that "only 6 percent of small business owners reported difficulty in obtaining financing." The banks want your business. Once you show evidence of profitable growth, it won't be difficult to get their attention.

Encouraging Sign 3: The Government Increasingly Loves Small Business

Whether you look at funding, manpower, or legislative attention, the government loves small business. As "The Little Engine That Could" quotes highlighted earlier, every politician wants to at least appear to be on the small business owner's side. The Ewing Marion Kaufmann Foundation even publishes a detailed advice booklet for would-be political candidates, titled *Entrepreneurship, a Candidate's Guide.*

The U.S. government began to level the playing field for all businesses beginning in the 1930s, when the Securities and Exchange Commission was formed. The key development for small business was the founding of the SBA in 1953. In the late 1950s, the SBA introduced Small Business Investment Companies (SBICs), which started banks down the path of loaning more money to small enterprises. Now the agency's role has grown to include education, funding of research studies, and assistance in procuring government contracts. However, the SBA is still best known for the guaranteeing of small business loans, allowing banks to lend more while carrying less risk. As a result, the agency has become the largest single financial backer of U.S. businesses in the nation.

In addition, the agency helps support a whole infrastructure of 1,100 small business development centers (SBDCs) located in multiple cities in every state. These centers provide advice and education for those looking to start or grow their own business. In 2003 alone, they counseled and trained more than 687,000 clients. These days, many people wonder whether their tax dollars are being put to good use. I am regularly exposed to the work of these business development centers, and I'm here to tell you that these people really know what they are doing. If you haven't contacted your local SBDC, I suggest you do so.

The SBA is just one section of the government that loves business owners, however. Nearly every major government department, from the Department of Labor to the General Services Administration, has a staff devoted just to small business.

The NFIB is the largest advocacy organization representing small and independent businesses in Washington, DC, and all

50 state capitals. The NFIB is not funded by the government but instead wields powerful influence over decisions the government makes at every level. There are also literally thousands of trade associations, from all areas and industries, that lobby government on behalf of small business.

Besides all of these groups working to help business owners, many state and local governments have their own economic development group. Sometimes it's the chamber of commerce, an economic development agency, or something else entirely. For example, I've spoken at three events for Senator Bob Bennett of Utah, who led time management products company Franklin International Institute Inc. (now known as FranklinCovey) into the Inc. 500. He holds annual education conferences for small businesses in Utah and sits on the U.S. Senate's small business committee. The Council for Economic Development (CED), in the Research Triangle area of North Carolina, claims to be "the largest entrepreneurial support organization in the nation." While the council is primarily funded by private sources, it does receive some grants from state development coffers and coordinates programs with the state.

In many cases, local governments cooperate with state governments in trying to incubate organic growth in a specific industry. The St. Louis Chamber Regional Growth Center set up the BioBelt organization to market the area as an agricultural biotech center and attract start-ups to the region. The agency estimates that 390 plant and life sciences enterprises now call this area home and collectively employ 22,000 people. The Biotech Council of New Jersey has similar goals for its state but is focused on leveraging its existing foundation within the pharmaceutical industry.

Government increasingly loves small business, and I don't see that changing any time soon. The trend certainly isn't going to be hurt by the fact that business owners are becoming more active in politics. As I write this, for the first time in history, the leader of our nation (George W. Bush), the leader of the most populated state (Arnold Schwarzenegger), and the leader of the most populated city (Michael Bloomberg) have all been successful business owners. Before being elected to their current offices, they all spent far more time running their own enterprises than they did in politics.

Encouraging Sign 4: The Playing Field Is More Level

Earlier in this chapter I said that big business is not completely vulnerable and that the strength of big companies should be respected. However, the classic business school terms such as *sustainable competitive advantage* and *barriers to entry* are becoming more and more antiquated. As our economy moves away from a manufacturing base to being more service and information based, the traditional advantages inherent in big business have lessened.

Due in part to both technology and changing business practices, it is increasingly easier for a new company to enter an industry and easier for companies to hop across previously well-drawn territory lines. Just look at what has happened in the telecom world. Nearly every major player is struggling to make a profit, while upstarts are stealing market share with prepaid cell phones or voice-over-IP services. The airline industry faces similar struggles. The traditional legacy airlines such as United and USAir are getting hammered by the likes of recent entries JetBlue and Frontier.

Huge companies used to enjoy the advantages inherent in economies of scale. They produced and sold such a large number of items that they could effectively dissuade upstart competition. Now many consumer product companies are not even making their own products; start-ups can book business with the same contract manufacturers the big boys are using. In addition, consumers are demanding a more customized experience, whether buying a product or a service. A nimble company can sometimes keep up with trends more easily and react faster to demand.

Giant marketing budgets also created a huge advantage, and this still keeps consumer product companies such as Anheuser-Busch and Procter & Gamble on top. However, the 30-second TV spot does not have the impact it used to (partly thanks to a start-up named TiVo), and many smaller players have grabbed market share by using their limited marketing and sales promotion budgets in a more direct fashion. In some cases, good public relations, viral Web campaigns, and search engine ads have vaulted no-name companies and brands into the mainstream seemingly overnight.

Technology has also leveled the playing field for small business. As we see in Chapter 7, software, hardware, and telecommunication solutions now give small business much of the same firepower as big business. In 1990, as president of a small but growing manufacturing company, I looked into buying salesforce automation software. The price of this mid-range solution was $30,000 before training and annual support costs. Today, you and I can buy a far superior package at the local office supply retailer for around $300 (before rebate).

OUR WORLD IS CHANGING; CHANGE CREATES OPPORTUNITY

This is but the first chapter of this book. In the last chapter (Chapter 9), I go into far greater detail about the role that change will play in our future. But here's a quick preview of what I think about change. Change always represents both opportunities and threats to the status quo. Of the 500 companies making up the S&P 500 in 1957, only 74 were still on the list in 1997. That means that more than 400 companies grew and took their place. Creation and destruction are inevitable results of our economic system.

Allow me to end this chapter on this note: despite my less-than-rosy depiction of the state of small business in the first half of this chapter, I want to clearly state for the record that I am a net optimist. I believe that despite all the potential obstacles, small business will be healthier, wealthier, and larger 20 years from now than it is today. Just as the power of the individual continues to rise in our society, so, too, will the power of the businesses individuals create. I don't see anything stopping that relentless momentum.