



PART ONE: The Decision to Start a Small Business

CHAPTER 1: The Role of Entrepreneurship & Small Business in Canada

CHAPTER LEARNING OBJECTIVES

- LO1. Discuss the level of interest and activity in the small business sector.
- LO2. Evaluate common methods of defining small business and explain why a definition is important.
- LO3. Summarize the current extent of entrepreneurship and small business in Canada.
- LO4. Describe the benefits a healthy small business sector can offer to society.
- LO5. Explain the probable future environment for entrepreneurship and the small business community.

ANSWERS TO SMALL BUSINESS IN ACTION QUESTIONS

1-1 YOUNG CANADIAN SOCIAL ENTREPRENEURS

1. How would you define social entrepreneurship? Do you think there is a difference between social entrepreneurs and regular entrepreneurs? Why, or why not?

Answer: Student Choice

2. Can an entrepreneur consider themselves social entrepreneurs if they retain all the profits from their business?

Answer: Student Choice – however students may mention that businesses can provide society benefits and still make profits. Donating profits is not essential to being a social entrepreneur.

3. Either in groups or individually, list some ideas for a social enterprise. If time permits, discuss the marketing mix for the social enterprises, including the product or service you will sell, how you will promote the business, the price you will charge, and where the business will be located.

Answer: Answer will vary on student work.

1-2 CROWD- FUNDING HELPS A CANADIAN BUILD A SMARTWATCH

1. Do you think the Pebble watch will be a successful product? Why, or why not?

Answer: Student Choice – however students may mention the popularity of the product on crowd-funding sites, the desire/need for mobile devices and its low price.

2. Why do you think some traditional lenders did not want to lend money to Migicovsky?

Answer: Student Choice – however students may mention the Pebble watch initially was just a concept, limited manufacturing experience and an unproven product. For the 2nd generation watch students may discuss competition from Apple and other major players.

3. Why do you think Migicovsky's use of crowd-funding was so successful?

Answer: Student Choice – however students may mention the product was unique and one in which there appears to be some demand and the effectiveness of his message – low price, smart watch.

4. What do you think are some of the advantages and disadvantages of crowd-funding?

Answer: Student Choice – however students should mention from the entrepreneurs perspective that it allows them to test market product ideas, provides additional sources of capital and can assist in pre-selling products. From a disadvantage side entrepreneurs have additional work to communicate with many people, it is fairly unregulated and some entrepreneurs and/or investors could act unethically.

5. Why do you think Migicovsky used crowd-funding to raise funds for the second generation watch, the Pebble Time? What were some of the potential advantages and disadvantages of this decision?

Answer: Student Choice – however students may mention the PR from the campaign, proven sales and strong terms for the company. Disadvantages include meeting demands of many pre-purchasers, potential PR, not using traditional financing which can come with assistance.

6. Use Internet resources and follow-up on the progress of the Pebble watch and compare it to other smart watches. How is the Pebble being received by consumers? How does it compare to Android and Apple watches?

Answer: Student Choice

7. Visit the Kickstarter website, and report back to the class some of the best ideas that are being pitched. What are the terms associated with the ideas? Would you personally donate or invest money using crowd-funding?

Answer: Student Choice

8. Should the government create rules and regulations for crowd-funding? Why, or why not? What are some advantages and disadvantages of creating rules?

Answer: Student Choice – however students may discuss rules will help regulate the industry but at the same time may curtail both investors and entrepreneurs from participating.

1-3 INNOVATION IN NEW BUSINESS - A SOCIAL MEDIA SUCCESS STORY

1. What are some of the advantages and disadvantages of using a product like HootSuite for your company?

Answer: Student Choice – however students may discuss that HootSuite allows business owners to post to multiple social media sites from one location saving time and money.

2. Given that many consumers are becoming increasingly concerned about privacy rights, do you think HootSuite or companies that use its social media tracking tools could be subject to public backlash against monitoring social media use and activities?

Answer: Student Choice

3. If time permits, visit HootSuite's website, and try out the free tools. Report back to the class if the tools worked as you expected. Prepare a summary of the features HootSuite can offer businesses.

Answer: Student Choice

1-4 ECONOMIC DOWNTURN PRESENTS OPPORTUNITIES

1. Why do you think some companies fail to plan for a downturn in the economy?

Answer: Student Choice – however students may mention it is human nature to assume things will be good for a long period of time; owners may want to keep the money rather than re-invest.

2. Do you think it is ethical for businesses to negotiate deep price cuts from suppliers? Why or why not?

Answer: Student Choice

3. What on-going actions do you think an entrepreneur should engage in to sustain a business for the long?

Answer: Student Choice – however some students many mention investing in the business; continuous improvement; diversification

ANSWERS TO DISCUSSION QUESTIONS

1. Why do you think entrepreneurial activity has increased? Do you think these trends will continue? Why or why not?

Answer: Student Choice - however the following aspects should be covered - significant contribution to society as a result of a healthy small business sector. Examples such as employment, innovation, productivity, flexibility, competitiveness and social contributions should be included.

2. What excites or interests you about being an entrepreneur? What are your major concerns?

Answer: Student Choice

3. Under what conditions would the various definitions of small business be more appropriate? (i.e., the level of profit may be used by Revenue Canada to determine the small business tax rate.)

Answer: The appropriate definition would depend on the use of the information. For example:

To obtain counselling assistance from the CASE Program of the Business Development Bank of Canada, the number of employees would be used (75).

To obtain funding under the Small Business Loans Act gross sales would be used (\$5 million).

To receive the reduced "Small Business" tax rate from Revenue Canada net operating profit would be used (\$300,000).

4. What is meant by the statement "Small business is the backbone of the Canadian economic system"? Give evidence to support this statement.

Answer: Several factors illustrate the impact of small business to our economy.

1. As indicated in the text, there is considerable evidence that those economies that provide the most encouragement for entrepreneurship and small business are those which have experienced the highest growth rates since the 1950's.
2. Small firms have accounted for most of the new jobs created.
3. Further evidence shows that 97% of businesses operated are small businesses and approximately 50% of gross domestic product is provided by small business.
4. A large portion of the inventions we enjoy today were provided by Canadian entrepreneurs.
5. Small businesses make approximately 32% of all business profits.
6. Approximately 29% of Canadian gross sales and 17.5% of exports are made by small business.
7. 20% of all business assets are owned by small businesses.
8. Small business is also more flexible and can respond more quickly to changes in the economy.
9. A much higher percentage of small businesses are Canadian owned than compared to large corporations.
10. Finally, small businesses seem to be more socially conscious than large companies and tend to operate with the community in mind.

All of these factors contribute to the theory that small business is the backbone of our economy.

5. The computer consulting business is becoming more and more fragmented. In data processing, for example, there are hardware versus software consultants, batch versus time sharing service bureaus, and mainframe versus microcomputer specialists. What effect does this type of industry fragmentation have on the small business community?

Answer: Fragmentation of markets to better service consumer needs and wants is beneficial to the future of small business. A small specialized time sharing service bureau, for example, has some economic and service advantages over a large firm with large overhead that handles all types of computer services. On this premise the outlook for small business in the future is very promising as many industries are following a similar pattern as the data processing industry.

ANSWER TO EXPERIENTIAL EXERCISES

1. Form groups of two to three, and start a small business or mini-venture that will run for a period of four to six hours.

The only rules are:

- a. The business has to be legal
- b. No lotteries
- c. Maximum investment of \$1
- d. Businesses must cease operations at day's end.

After completing the project, write a reflection stating what you did, whether you made a profit, and what you learned. you may also present this information to the class.

Answer: Dependent on student choice.

2. Ask three small business owners about their projections for the future of small business. What problems and opportunities do they foresee?

Answer: Will vary based on the entrepreneurs selected

3. Using Internet resources, find out how different Canadian organizations define social enterprise. After preparing a summary report on your findings, draft your own definition of the term.

Answer: Student Choice

4. Write a short essay discussing your views on the future of small business given current trends in society and in your geographic area.

Answer: Student Choice – however student's answers should be positive.

CONCEPT CHECKS (Not in text)

Why has there been an increase in entrepreneurial activity throughout the world in recent years?

Answer: Many countries are turning to small business and private initiative to assist in their economic growth.

What evidences are there that there is an entrepreneurial "revolution" occurring?

Answer: The entrepreneurial revolution is evidenced by increases in: business establishments, employees in small businesses, government small business programs, college small business classes, and entrepreneurial activities of large companies.

Why is it important to define small business?

Answer: Although defining a small business is difficult, it is important to make for comparison, evaluation, and various lending and assistance programs.

What are the criteria used to make this definition?

Answer: Some of the common criteria in defining small are total revenue, number of employees, profitability and type of management structure.

What is the extent of small businesses in Canada?

Answer: Small business accounts for 98% of all businesses, 29% of gross sales, 26% of gross domestic product and 56% of the labour force, 32% of business profits, 17.5 % of all business assets, 25% of exports and 52% of net job creation.

What two demographic groups have shown an increase in proprietorships in recent years in Canada?

Answer: In recent years there has been an increase in small businesses established by seniors and women.

What are the contributions small businesses can make to a society?

Answer: Small business promotes Canadian ownership and economic growth, provides jobs, innovations, high productivity, flexibility, and social contributions to a society.

What are the positive and negative factors which may influence the small business community in the future?

Answer: The climate for starting a small business in the future should improve; however there will continue to be competitive disadvantages which may negate this potential advantage. The factors which may influence this change include technology, consumer demographics and buying patterns, and the competitive aspects of markets.

VIDEOS

CBC Dragon's Den Videos: Videos and notes are available on DVD and the Instructor Resources site.

- *Video Notes with questions have been prepared by Peter Mombourquette and are available on the Instructor Resources site.*

Other Video Resources:

- **Centre to Entrepreneurship Education & Development (CEED):** Subscribe to this YouTube channel here: <https://www.youtube.com/channel/UCgxnMK3Kglw607FnhuZJixQ>
- **Mount Saint Vincent University, Entrepreneurship Panels:** Subscribe to this YouTube channel here: <https://www.youtube.com/channel/UC-vNc3VN4KNouuQbQBU7SxA>

GROUP PROJECT

While many of the experiential questions would work as group projects. Questions 1 and 3 from this Chapter would make excellent group assignments/projects.