Toward 2000 and Counting:
Small Business Challenges and Opportunities in Central Wisconsin
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A small business is one where you can bring your dog to work.
[Andy Bangs, Jr.]

Today the small businesses also a place where you can bring your children, Le., the home based business! [R. Judy]

The first four years of this last decade of the Twentieth Century have not been particularly good for businesses of any size, either large or small. Recessory pressures and corporate restructuring have resulted in significant layoffs and probably permanent losses of jobs. Writers and researchers have struggled for the proper terms to describe this 90’s phenomenon and lessen the impact on both those who are displaced victims of these forces and those who have remained behind. But the words downsizing, delayering, right sizing, resizing, correct sizing, reorganizing, organizational corrections, restructuring, reinventing, Teams, total quality management [TOM] and re-engineering can not disguise the fact that the shape of organizations for the foreseeable future will be trimmer, slimmer, and theoretically more efficient. Notwithstanding, several recent articles have noted that many of the restructured companies, which have drastically cut their workforces, are not showing the real bottom line gains that had been predicted.

The combination of increasing globalization, internationalization, and bottom-line pressures, when coupled with the recession of the past few years, has precipitated these dramatic changes in business and industry structure. Most of the recent permanent workforce reductions, the delayering or at least permanent reshaping have for the most occurred in the white collar, middle management ranks. Effects of layoffs or downsizing at the lower or worker levels of business are in many instances being overcome as we pull out of the 90’s recession and as businesses expand production and/or services. At least that is what the economists and business prognosticators would like us to believe.

The real impact of the adjustments in the business organization and in the climate of industry in general has yet to be fully determined. And, probably the restructuring has yet to run its full course. However, the introduction of high numbers of well trained and skilled mid- and upper-level workers/managers into the ranks of the un- or under-employed has had a debilitating effect in many geographical areas and industries. These out-of-work persons, many with years of experience and an abundance of technical expertise, mainly managerial level persons in their forties, fifties, and even sixties are now struggling to find meaningful work [hopefully with benefits and reasonably comparable wages]. This senior worker is challenging the
younger, emerging workforce that has just graduated from high school, college or technical school, as well as those still in the workforce who have been struggling for promotions to the middle management ranks. Middle management as we have known it is probably pass. One significant effect of this glut of high quality managers and technicians is a renewed or strong new interest in small business, ownership and/or investment as a way to rejoin the ranks of the employed. Both start-ups and acquisitions of existing businesses are equally attractive for these new potential small business persons.

**Profile of Small Business Activity**

Based on US SBA and US Chamber of Commerce data, the US economy is expected to add 25 million new jobs by 2005. The US SBA estimates that small businesses will contribute approximately 68 percent of these new jobs. By 2005 the US total employment is projected to increase by 24.3 percent. About 80-percent of that employment increase or about 13.3 million jobs will be created by small business dominated service industries. Only one of the nine small business highest growth areas is not a service sector - passenger transportation. Employment in medical and dental, particularly laboratories and the health care industry in general will continue rapid growth.

Surprising to many, eating and drinking establishments, restaurants and bars of all kinds, are projected to add the most jobs during this 11-year period, today to 2005. Unfortunately, this retail sector is not noted for its high wage scales. Nevertheless, there will be a projected 33-percent growth in jobs in this sector - 10-percent of all new jobs created during the next 11 years. Changing life styles and increases in baby-boomer discretionary incomes are at the root of this growth. The overall rapidly aging population is another contributing factor to the service and retail sector growth patterns.

The second most rapidly growing area for small business will be stores selling building materials and garden supplies. The remaining high growth service sector areas are: equipment rental, credit reporting, accounting services, job training, and family counseling. The fastest growing large business dominated industry is anticipated to be personnel supply services followed by health care.

**The Nature of Small[er] Business**

Of the more than 20 million businesses in the United States today, approximately 19.6 million or 98-percent can be considered small [SBA Data Series]. They thrive in virtually every industry, although the largest concentrations are in the retail and services segments. The US SBA defines a small business as having 500 or less employees. In many instances the SBA may further require a small business to meet other criteria such as maximum total sales or financial holdings, or other criteria related to their particular industry classification in order to qualify for SBA direct or guaranteed loans,
technical assistance, etc. The charts and tables in this paper are based on the SBA definition of a small business.

Although, small businesses have less than 25% of the total business assets, small companies employ more than 35% of the nation's private sector workforce. Industries dominated by small businesses tend to generate jobs at a rate nearly double that of industries dominated by larger companies Birch [1993]. Further, small businesses produce more than 38-percent of the country's gross domestic product, account for some 42-percent of business sales, and overall provide livelihoods for over 100 million Americans, either directly or indirectly. Thus it is Gear that small business is important. See Charts 1 and 2.

Small businesses are the ubiquitous form of business. Small businesses are found in every industry and in every state and region throughout the world performing the vital services or manufacture of needed products. The small business, whether manufacturing, service, or the family fans is the backbone of a nation's economy. Small businesses are the dominant form of organization for American business. Together, small businesses provide about half of the national output of products and services.

Small businesses have a strong impact on the business expansion and employment opportunities in the United States, and certainly in Central Wisconsin. During the period 1980 to 1986, as an example, 44.7 million new jobs were created, 32 million jobs from the birth of new businesses and another 12.7 million came from expansion of existing businesses. However, as is typical for US industry, 34 million jobs were lost during the same period. The important factor, however, is the total number of net new jobs [US SBA Data Series].

During a recession period such as the US economy has just experienced, large businesses typically go through a belt tightening period. But recessions can be good for smaller businesses, if good is a proper term in this case [Birch, 1989]. Typically during a recession there is an increase in new small business starts over a nonrecessionary period. Large businesses frequently layoff or downsize in recessionary periods and many of the laid-off persons seek to start and/or expand a small business. Over time the structural growth of new jobs comes in large part from a growth in the number of new small firms, many of which are non-corporations. However, since so many small businesses are non-corporations, it is difficult to track accurately new small business creation even from the tax roles, sales, or income records. Further, as most everyone realizes there is a very sizable “gray” market of small businesses in which the income produced is never reported. The local baby sitters, lawn mowing services, sewing and mending, and even illegal businesses are a few examples.

The Synergy of Small and Large Businesses

There are obviously more than just large businesses in the overall world of business, yet we tend to hear the most about large business. Large firms are important to the
market economy of the United States and tend to be the major players in the global market place. They have better PR departments and attract media interest with their big numbers. Our academic institutions similarly concentrate on large business in many courses. In the past ten or so years, however, there has been a significant increase in the number of courses addressing small business and entrepreneurial activities. Large firms are also dependent on small firms. This interdependency seems to be increasing as large companies "outsource" work that the small firms can do more efficiently and ostensibly at a lower cost.

The small firm providing the outsource for a larger firm will probably charge less for the outsourced good or service. There is an argument, however, that many smaller firms are really under-pricing their goods or services. For example, small firms may charge less because the small business owner's "sweat equity" is not costed to the final price. There are other factors such as overhead that are frequently incorrectly allocated to the different products or services of the business. The net effect is a product or service that really should cost more but the small business owner "absorbs" some of the expense. I suppose one could argue that if the small business is providing a reasonable livelihood for the owners, then who should really care. However, the inability of management to operate small businesses as an ongoing business is a major factor for the high failure rates among smaller businesses, up to 80% in five or so years according to many sources. The final table in this paper will make this point very clear.

Nevertheless, the small to large business ratio continues to grow. It has been estimated that the really large businesses often have 500 small suppliers and distributors and about 3,000 retailers in their web, i.e. General Motors or General Electric. The relative independence, less bureaucracy, flexibility and low inertia are true assets for the smaller firm. Increasingly, however, it has been noted that large businesses are demanding more of their small business partners". For example, small business may be required to follow the larger firm's accounting practices, share real-time information, on computer networks and adhere to quality standards established by the larger firm and/or an industry, e.g. ISO 9000 [the recently established international quality standards].

**Small Business Activity in Wisconsin**

Wisconsin's 104,271 business firms in 1990 had 98.3 percent under small business ownership [less than 500 employees] or a slightly higher percent of small businesses than the nation as a whole [SBA Data Series]. Small businesses in Wisconsin employed 57.3 percent of Wisconsin's private non-farm workers, while nationally 53.7 are non-farm. The small business payroll based on the SBA statistics exceeded $20.2 billion in 1990. From 1991 to 1992 small business incorporations rose 4.2 versus 6.1 percent nationally. In Wisconsin, both the State and local governments, must be more proactive in encouraging small business formation and retention. See Chart 3 for a comparison of small business distribution by industry sector in Wisconsin.
Since Wisconsin needs to improve in the area of small business formation and retention, how does Wisconsin fare compared to other states on some significant business factors. The chart on the following page compares Wisconsin to the 50 states and the District of Columbia and is enlightening.

<table>
<thead>
<tr>
<th>AREA OF COMPARISON</th>
<th>WISCONSIN RANKING</th>
<th>REMARKS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole Proprietor/Partnership Income</td>
<td>28</td>
<td></td>
</tr>
<tr>
<td>Total Earned Income</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>18</td>
<td>Wisc. is one of a small number of net exporting states</td>
</tr>
<tr>
<td>New Business Incorporations</td>
<td>37</td>
<td></td>
</tr>
<tr>
<td>Business Formations</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Business Bankruptcies</td>
<td>35</td>
<td></td>
</tr>
<tr>
<td>Business Failures</td>
<td>6</td>
<td>1 is the highest rate; this is not a good sign for small businesses</td>
</tr>
<tr>
<td>Business Terminations</td>
<td>17</td>
<td></td>
</tr>
</tbody>
</table>

Although there are various points of view as to the level of assistance the State should provide to both large and small businesses, it is clear Wisconsin can do more to improve the efforts to educate, recruit, and encourage small businesses. Great strides have been made in the variety and magnitude of services to the small business sector. For example, the Wisconsin Department of Development has established liaison and assistance offices throughout the state, e.g. the North central office in Stevens Point/Plover staffed by Mary Jo Carson. UW System [particularly Extension Services and the state-wide technical assistance centers] and the Technical College programs are targeting small business. The US SBA programs through the Small Business Development Centers and Small Business Institute programs [e.g. at UWSP] and SCORE [Senior Corps of Retired Executives] serve the three major counties in Central Wisconsin, and have helped in some significant degree towards improving the Wisconsin small business climate. But these efforts are not enough.

**Toward 2000 and Counting:**

**Small Business Challenges and Opportunities in Central Wisconsin**

This paper began with the premise that small businesses are the heart of the US economy. The same is particularly true for the Central Wisconsin economy. In the preceding sections the predictions of the SBA and others seem to indicate that significant growth will occur in the service sector, and to a lesser degree in the retail
area. Wisconsin is expected to be a leader in economic resurgence, particularly in the Midwest region, for the remainder of the decade.

The challenges faced by small businesses are significant. There will be many new challenges in the future. Positive and continuous actions of State and local governments, as well as business leaders and business associations are vital to sustaining small business growth and development in Central Wisconsin. The availability of funding at reasonable rates and the general infrastructure for development are necessary. The retention and expansion of existing businesses is probably more important than importing new businesses although most economic development activity at the State and local levels are directed at importing.

To grow existing as well as new businesses, there must be an awareness of the challenges and problems faced by small businesses in particular. Business failures among small businesses are too high, both the legal failures, i.e. bankruptcy, and those businesses simply dosing their doors. Many authors have noted that too many businesses cease to exist, even when profitable, as the owners tire of the effort and no succession seems possible. The table below outlines critical reasons for small firms failing and the differing perceptions between the owner and the creditor, e.g. the bank, SBA or other source of funding for the failures.

<table>
<thead>
<tr>
<th>Reasons Why Small Firms Fail - Differing Perceptions</th>
<th>Owner</th>
<th>Creditor</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inadequate Management Skills</td>
<td>6</td>
<td>1</td>
<td>This difference is significant</td>
</tr>
<tr>
<td>Under Capitalized</td>
<td>2</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Econom</td>
<td>1</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Bad Debts Losses</td>
<td>5</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Competition</td>
<td>3</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Asset Value Decreases</td>
<td>4</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Location</td>
<td>7</td>
<td>7</td>
<td></td>
</tr>
</tbody>
</table>

Source: Brumbeck and Lawyer

In sum, some 980 of all small business failures are due to the inadequacies of management. This is not only the perception of the creditors but has been demonstrated in a number of research studies. Although the owner of a small business may see competition as the main cause for the failure of the business, the real reason for the high failure rates is a combination of factors, but their own management short comings is the overriding factor.

A 1993 Louis Harris and Associates polled 401 small business owners [Business Week, 4-19-93, p.120]. The poll found that current key trouble spots and future concerns of the
owners were the same, i.e. health insurance, government regulations, finding and keeping qualified employees, financing, and litigation. The new trouble spots for the future will probably include: information technology explosions, the global market place and increasing domestic and international competition.

What can communities do to assist small businesses [helping the small will automatically help the large]. Establish readily available and inexpensive education programs [inplant and off-site]. Have land and funding available for expansion, such as industrial parks.

• Encourage new niche" industries and business rather than duplicates of already successful businesses in the community.
• Encourage competition, entrepreneurs thrive on reasonable risk and competition.
• Continually check the probable sources of new small business owners:
  Æ Corporate refugees, they have the talent and frequently the money.
  Æ Youth - encourage programs like Junior Achievement, DECA, 4-H, Scouts, WEEC, etc. which encourage improved understanding of the nature of our economy and the role of small and large businesses in a vibrant economy.
  Æ Immigrant ownership - the new wave of entrepreneurs for the next century will stem from rapidly increasing minority and immigrant groups as did the business expansions of the previous century.
  Æ Women ownership - a major source of new labor as well as small business ownership in the next century will be women.

Small businesses face many challenges for the next century - many will be the same as those today, but certainly there will be new ones about which we can only speculate today. Someone once said, we're never faced with problems in business or our personal lives, the problems we face are really only challenges to be overcome - a small business can meet many of those challenges.

General References and Sources

Chambers of Commerce and Economic Development Offices:
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Portage County [P. Devlin, Exec. Dir. Stevens Point - Plover Area CofC; D. Ward, Dir., Portage County EDC]
Wood County: Marshfield [M Hardacre, Exec. Dir., Greater Marshfield CofC]
Jamieson, David and Julie O'Mara. Managing Workforce 2000: Gaining the Diversity