

Small businesses

Even though growth is a common business objective, some companies may decide to stay small and focus on satisfying their customers with excellent customer service and quality products.



Figure 1. Many smaller businesses are comfortable with the amount of profit they are making.

Credit: Willie B. Thomas, Getty Images

Reasons for staying small

After studying business growth, it might seem that big is always better, and that small businesses do not stand a chance. This is actually *not* the case; many smaller organisations thrive alongside their larger competitors. You can probably observe this fact yourself by thinking about the shops in your own neighbourhood. Smaller organisations can do well because there are many advantages of operating on a smaller scale.

Here are some reasons why businesses might choose to remain small, some of which are distinct advantages of small businesses:

- **Avoiding risk, maintaining control:** Sometimes owners are not interested in growing because they do not want to take large risks or lose control over the business. They focus on achieving only the profits they need to survive and be comfortable. This is sometimes known as satisficing.
- **Small market size:** Even though increasing market share is one of the most common business objectives, there can be highly specialised professionals who only serve customers in the local area or a niche market and do not want to expand their services to other places or groups of people.
- **Limited access to sources of finance:** Often small businesses find it difficult to gain access to sources of finance in order to expand; this can be a hurdle keeping business small.
- **Sustainability:** Some small businesses may be concerned about environmental sustainability and they do not want to overuse resources.
- **Strong social networks:** Some businesses may decide to stay small in order to engage with other stakeholders, including customers and employees, in a positive way through strong networks, focusing on sociocultural sustainability and receiving mutual benefits, which builds resilience.

Concept

Creativity and Sustainability

Creativity involves generating new ideas and considering existing ideas from new perspectives.

When the companies decide to stay small, they need to be creative to find ways to satisfy their customers and compete against larger businesses that may have lower average costs of production. The creativity of many small businesses in towns and cities is the key to customer loyalty.

Small businesses may develop stronger relationships with other stakeholders and receive mutual benefits. This is called sociocultural sustainability, which occurs when businesses that provide for human needs are interdependent with the communities they serve. This interdependence builds resilience.



Figure 2. Small businesses are likely to be closer to their customers and form strong networks improving sociocultural sustainability and resilience.

Credit: SDI Productions, Getty Images

On the other hand, being a small business can have disadvantages. Small businesses tend to have higher costs of production because they cannot take advantage of the economies of scale available to larger businesses. This can lead to lower profits. Access to finance can be difficult too, as some external sources of finance may believe that it is too risky to invest in a smaller business. Finally, small businesses may have trouble recruiting and retaining skilled workers, since larger businesses may be able to offer higher salaries, greater benefits and more professional development.

Making connections

In the IBDP Economics course, students learn about monopolies. A monopoly is where one company has a dominant position in a market. While this can be an advantage for the monopoly firm, in terms of pricing power and high sales revenues,

this can reduce the participation of small businesses in the market. In many cases, this pushes out or prevents the formation of small businesses and the creativity they often bring to an industry.

Activity

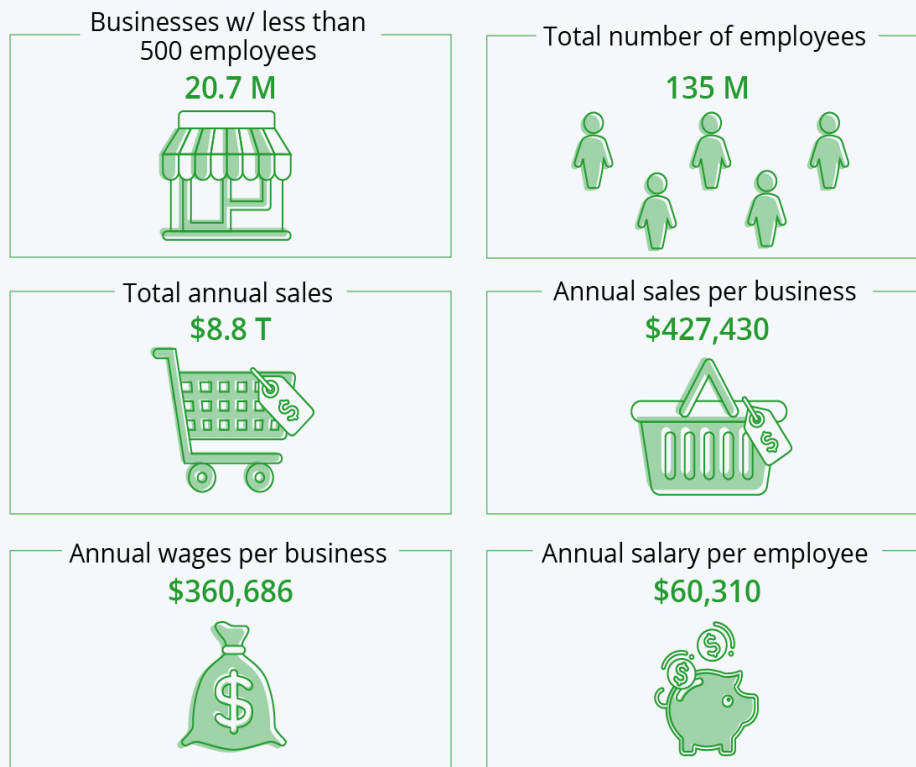
Learner profile: Inquirers

Approaches to learning: Thinking skills (critical thinking, transfer)

This infographic shows some information about small businesses in the USA.

Fast Facts on U.S. Small Businesses

Statistics on the size and economic data of small businesses in the U.S.



Data from Q4 2018 - Q4 2019
Source: Dun & Bradstreet



statista

Figure 3. Fast facts on US small businesses.

Source: Statista (<https://www.statista.com/chart/21412/small-business-facts-in-america/>), CC BY-ND 3.0 (<https://creativecommons.org/licenses/by-nd/3.0/>)

Consider a particular business in your neighbourhood or city. Discuss with a partner the advantages and disadvantages that this particular business might face.

Case study

Some years ago, Jessica opened her business, Jessica's Salon (JS). She offers hairdressing for women. Her customers are happy with her service. She offers various services, including nail treatments, facials and skincare treatments. She was

able to hire three new employees. She is very ambitious and she wants to expand her business quickly.

Jessica is considering both internal and external growth for the expansion of JS. One possibility is for Jessica to rent an empty salon that is not very well located, where she will be the only manager and keep control over the decisions. Her second option is to buy 60% of a popular salon located in a busy street from the original owner, who is unwell and wants to reduce his work in the business. Jessica would take over the existing business and staff.

However, Jessica's customers are concerned about the growth of the business. They have strong relationships with Jessica and her team, considering the business a part of the character of the neighbourhood. They believe that both alternatives are going to negatively impact the excellent customer service that JS currently offers.

Questions

1. Define external growth. [2 marks]
2. Explain **two** reasons for Jessica to grow the business. [4 marks]
3. Distinguish between internal and external growth. [4 marks]