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English 273, Period 6

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### Outline

Since lack of funding for small businesses impedes their growth, businesses that use crowdfunding will raise their chances of success.

#### I. Small Business Failure

##### A. History/Development

1. During the economic downturn of 1992, many people were more willing to pay off their debts than spend more money on businesses.
  - a. Businesses could not keep up with the increasing prices of maintaining their business
  - b. Consumers avoided spending money because they had less spending money and were afraid of losing their jobs (Tannenbaum 0).
2. The recent economic recession has hurt small businesses because they are unable to adapt to their environment.
  - a. Small businesses play an important role in creating jobs. In 2009, small businesses comprised 64 percent of employment since the 1990s (MacDonald 1). Small business is the source of around half of America's private GDP and private sector employment (MacDonald 1).
  - b. As the year 2008 drew to a close, the housing market dropped as home values decreased. This, along with little available credit, caused failure of construction companies (MacDonald 1).
    - (1). Small businesses, more often than larger businesses, must pay more money to follow federal regulations (MacDonald 4).

(2). In 2008, the rates of borrowing for both large and small businesses dropped significantly, with an over 80 percent reduction in borrowing for smaller businesses (MacDonald 4).

(3). Small businesses have problems with giving healthcare to their workers, as well as hiring and keeping them (MacDonald 4).

c. Of all the issues that small businesses faced in 2008, the greatest was financing (MacDonald 4).

II. There are three main solutions to this problem.

A. Small businesses need to communicate effectively with other businesses, their local community, and other stakeholders.

1. Entrepreneurs must know how to communicate with their business.

a. If a small business holds meetings with their employees, and communicates the owner's vision and the value of their employees' ideas, its employees will have a better understanding of their goals (Dyer 45).

2. They should associate with other businesses in order to trade ideas, employees, and resources.

3. Small businesses should gain familiarity with the members of a community (Dyer 45).

B. To reduce the high failure rate of small businesses, business owners and their employees need to improve their expertise through education.

1. Entrepreneurs must know the number of employees, the location, and the amount of money that are needed to be successful.

a. The Small Business Administration provides business training and information to millions of entrepreneurs (Hearing on SBA 1).

b. The Small Business Administration provides business training and information to millions of entrepreneurs (Hearing on SBA 1).

- c. The centers can train individuals in a wide variety of subjects, including “financial, marketing, production, organization, engineering and technical problems and feasibility studies” (Hearing on SBA 1).
    - 2. Knowledge and expertise can be learned.
    - 3. Classes and courses on economics and business should teach business ethics to inform employees on how to work with honesty.
  - C. Small businesses that use crowdfunding will gain more capital from people who are willing to donate money to help their company, and will therefore be better capable of growth.
    - 1. Crowdinvesting is a way to fund small businesses through a crowd of interested investors (Kortleben & Vollmar 404).
      - a. “Instead of a few investors get many, instead of some high funding amounts from a few get many small” (Kortleben & Vollmar 405).
      - b. The defining characteristic of crowdinvesting as opposed to crowdfunding is that crowdinvesting offers investors shares of the company (Kortleben & Vollmar 404).
    - 2. The relatively recent advancements in the Internet have given rise to new platforms for crowdinvesting, that is, the middlemen between the entrepreneur and the investor (Kortleben & Vollmar 405).
      - a. Small businesses can present their ideas through an Internet based platform, and gain support for their ventures.
- III. The best solution to ameliorate the failure of small businesses is crowdfunding.
- A. Benefits and drawbacks of communication
    - 1. Benefits
      - a. Small businesses are better able to adapt to their environment when they have strong relationships with their clients.
      - b. “Norman Stone (1995) says that public relations can: support business objectives, explain policies, increase awareness, focus attention on issues, encourage

informed discussion, help to change perception, opinion, and behavior, influence attitudes, motivate staff, reinforce the marketing and sales effort, build and sustain a reputation over time, help to restore credibility, have some effect on the values of a particular group or of society as a whole” (Dyer 43).

- c. Small businesses that communicate effectively will be able to adapt to new changes and new options that present themselves (Dyer 46).
- d. By associating with other small enterprises, businesses can create mutual funds and gain capital (Agyapong 202).

## 2. Drawbacks

- a. Small businesses may not be supported by their community if they do not give something in return.

## B. Benefits and drawbacks of education

### 1. Benefits

- a. The most significant benefit of education in entrepreneurship is that small business owners would better know how to run a business.

### 2. Drawbacks

- a. People who take business courses may not truly understand the potential drawbacks of trying to start a successful business, such as the risks involved.

## C. Benefits and drawbacks of crowdfunding

### 1. Benefits

- a. Crowdfunding can finance a business owner in the early stages of development, when there is a lack of funding for the business (Kortleben & Vollmar 404).
- b. Small businesses that use crowdfunding will gain more capital from people who are willing to donate money to help their company, and will therefore be better capable of growth.
- c. Small businesses can benefit from increased publicity brought on by social networking and the availability of online information regarding their business (Kortleben & Vollmar 408).

- d. A common cause of the failure of businesses to acquire funds through investors is the fact that only a small percentage of ideas meet the requirements of venture capitalists (Kortleben & Vollmar 404).

- (1) Crowdfunding will eliminate this problem, because there is less risk involved for the investor.

## 2. Drawbacks

- a. Crowdfunding depersonalizes a company, and the investor will not have a strong relationship with that company.
- b. Crowdfunding may not necessarily provide the needed amount of funds to support a small business.
- c. The entrepreneur knows more than the investor (Kortleben & Vollmar 406).
  - (1) It is possible that the success of a small business could be due to its environment, rather than its business plan (Kortleben & Vollmar 406).
  - (2) Investors who are less experienced may be wary of a business idea because they do not have sufficient knowledge. They may also not want to trust their peers' opinions, if they do not know their backgrounds. (Kortleben & Vollmar 407).