

EXCHANGE

BRIGHAM YOUNG UNIVERSITY SCHOOL OF MANAGEMENT

WINTER 1987

ENTREPRENEURS
Building the Dream



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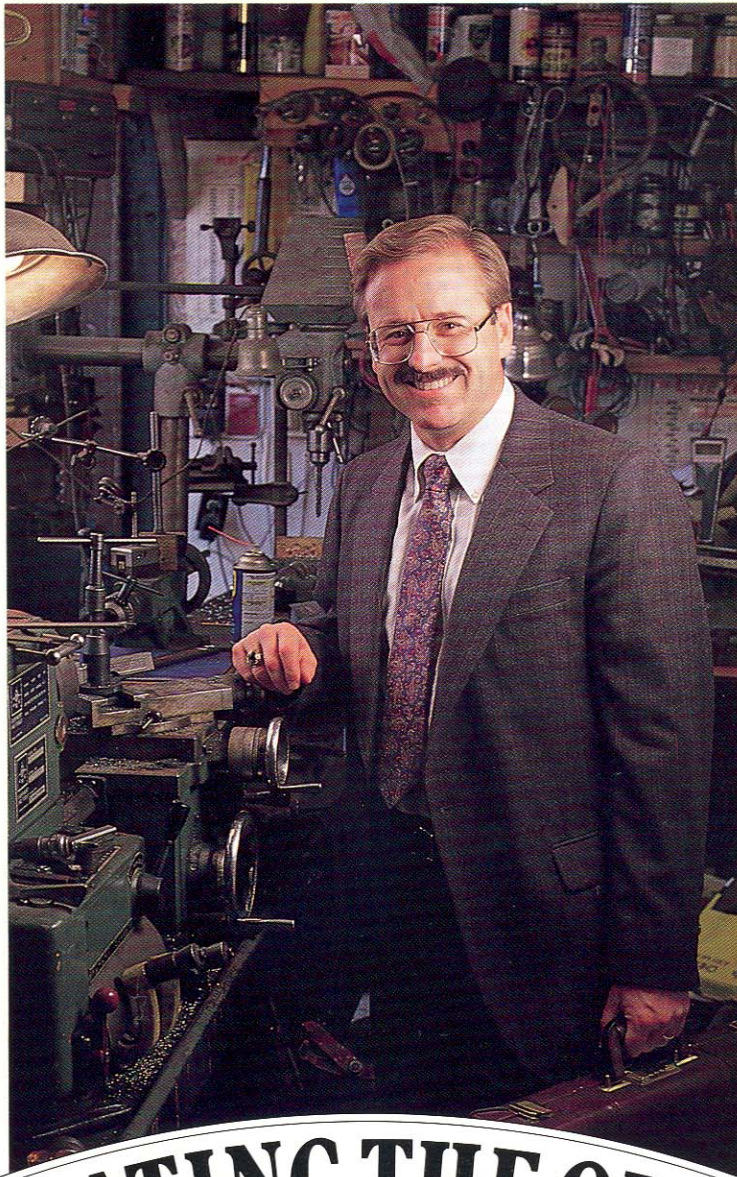
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BEATING THE ODDS WITH SBDC

Warner Woodworth and Jean Brown

Dozens of books have been published in recent years extolling the virtues of individual entrepreneurship and small business as the major stimulus for growth of America's economy. Wanniski's *The Way the World Works*, George Gilder's *Wealth and Poverty*, and Naisbitt's *Megatrends* all point to the promise, and the pain, of the individual working out of a garage who eventually makes it big as a business

entity.

The mythology surrounding small firms holds that working in the garage is a labor of love, that long hours are a joy and inspiration as one dreams up new products, designs creative marketing strategies, and finds a chink in the armor of the monolithic existing economy. The romantic picture concludes with a happy ending: entrepreneur takes the industry by storm, makes megamillions, lives in

a fancy condo, and starts driving a new Porsche—all before age 30.

Beyond the Mystique

In contrast to this popular myth lurks cold, stark reality. Launching a small business is mostly sweat, tears, and numerous failures. It involves considerable risk, often including a second mortgage on the house, car, and, at least psychologically, even the family

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if necessary. Entrepreneurship is not so much a joy ride as it is Brahma bull rodeo ride. The rider often ends up on the ground, nearly kicked to death, choking on the dust.

One fact about building a small business is evident to all—the survival rate is disastrously low. In spite of political rhetoric, small entrepreneurial firms have been crushed in recent years. While estimates vary, depending on one's definition of a small firm and the data base used, most experts agree there are severe problems. *Forbes* suggests that 80 percent of all start-ups are dead within a decade.

In an insightful article, "Rabbits, Lynxes, and Organizational Transitions," Kenwyn Smith argues that the current average life of business in America is less than 12 months, "an infant mortality rate of crisis proportions."

Business bankruptcies are increasing at an alarming rate: 11,000 in 1970; 12,000 in 1980; 25,000 in 1982; 52,000 in 1984. Economists at Dun and Bradstreet report that 1986 failures are running 18 percent ahead of last year. By contrast, there were approximately 32,000 business failures in the Great Depression peak year of 1932.

In response to this growing epidemic, the federal government's Small Business Administration (SBA) has attempted a number of innovative programs to strengthen small enterprises. One of these, the Small Business Development Center (SBDC), consists of providing technical assistance to local firms from an academic base.

Forging a New Partnership: BYU's Small Business Development Center

Traditionally, universities and surrounding cities are often at odds. The public may see academia as elitist, pursuing irrelevant research while ignoring local realities. Conversely, many universities perceive the larger city as parochial and out of touch with national and international developments.

At BYU we hope to avoid conflict and competition by building a new partnership between the School of Management and Utah Valley. While

the university has contributed considerably in terms of culture, religion, arts, and entertainment, there is much untapped potential to be released with respect to economic development. We have brainpower, access to major national figures, and applied research experience that enable us to participate in developing a healthier economic community. It is this common agenda that brings cities in the region and BYU together.

In early 1986, after 10 months of planning, a Utah Small Business Development Center was established within BYU's School of Management. Our interest in setting up such a program here is several-fold. First, it extends the university into the surrounding community in a way that makes the campus more socially responsible, more relevant to local concerns and needs rather than promoting an image of an aloof, ivory-towered institution. Second, it provides expertise to locally-owned firms that need, but cannot afford, consulting assistance. During 1980-83, Utah suffered a 578 percent increase in business bankruptcies, the third worst record in the nation. The new SBDC hopes to help counter, if not reverse, this trend. Third, this new program offers a number of students, especially MBAs, the opportunity to gain valuable field experience working with owners and managers. Too often their training is limited to casebook examples or pigeon-holed work in a small department of a large firm. Through the SBDC, students can now design and carry out a marketing study or help a small firm set up an accounting system with real bottom-line results. Such work yields academic credit or a modest consulting fee for the student, at no cost to the entrepreneur.

BYU's SBDC also has a field office at the Provo/Orem Chamber of Commerce. Funded by the SBA, with the state of Utah supplementing the budget and BYU matching it with staff support, offices, and other overhead costs, the program operates as a nonprofit organization. Linkages have been established with a number of regional

groups that are attempting to strengthen Utah Valley's economic health, including the Chamber of Commerce, Mountainlands Association of Governments, Utah Valley Industrial Development Authority, and others.

In addition to technical assistance, periodic training seminars are offered by the SBDC covering a range of subjects pertinent to small businesses, such as bookkeeping and accounting, time management, and customer relations. Seminars are taught by faculty members or area professionals who have experience working with small businesses. We anticipate that through training and counseling, BYU's SBDC will act as a liaison between campus expertise and the critical needs of Utah Valley.

The center is also developing several innovative programs beyond the conventional scope of the SBA. Small-scale entrepreneurial excellence will be emphasized by counseling small business managers on effectively using employee resources, creating high commitment workplaces, and building top performing organizations. Another effort is linking up innovative products emerging from technological research in the valley with local capital and managers desirous of launching new businesses. A third strategy consists of educating small business owners about the growing phenomenon of employee ownership. We are also working with other groups in Utah County to create a business incubator in downtown Provo that will hatch new jobs and new firms, helping to revitalize the city's economy.

Small Is Bountiful

The importance of the small business sector to the nation's economy can hardly be overstated. Contrary to expensive ads by large conglomerates about their contribution to job creation, most new jobs are generated by small companies. According to David Birch of MIT, two-thirds of all new jobs created between 1969 and 1976 emerged from companies with 20 or fewer employees. During the recession years of the early 1980s, small business developed 978,000 new jobs, equaling the entire

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net increase in employment during those years. In more normal periods, small firms create well over half of all new jobs.

There are approximately 14 million nonfarm businesses in the United States, 98 percent of which are small companies. In spite of popular rhetoric, which asserts that new jobs come from flashy high-tech industry, the reality is that most new firms and new jobs grow out of low-tech, conventional industries—companies such as construction, automobile dealerships, home furnishings, and warehousing. These new jobs arise from small, labor-intensive firms rather than large, capital-intensive enterprises.

The total value of goods and services provided by the small business sector of America makes it the fifth largest economy in the world. The United States as a whole tops the list, with the Soviet Union, Japan, and West Germany following. U.S. small business employs 48 percent of the private workforce, accounts for 42 percent of all sales, and contributes 38 percent of the GNP.

The evidence is convincing that smallness leads to creativity, too. The incidence of innovation among employees in small companies is significantly higher than among workers in large corporations. Small businesses have been responsible for over half of all new product and service innovations since World War II. According to research by the National Science Foundation, between the years 1953 and 1985 firms with less than a thousand employees provided half of the major innovations in the United States. Companies with fewer than 100 workers provided 24 percent of all inventions registered with the U.S. Patent Office.

Strengthening the Bottom Line

Much evidence suggests that undercapitalization is a horrendous barrier to small business success. However, a recent Dun and Bradstreet study revealed that ineffective management is the cause of business failures in over 90 percent of the cases. The report concludes that owners/managers are incompetent, lack

experience in the industry, or are simply untrained.

What we hope to do at BYU's SBDC is to counter these problems by developing strategies designed to increase managerial competence. Educational seminars and on-site consulting services will not be a panacea, but they can definitely have an impact. The bottom line is to marshal resources that will mitigate the immense challenges facing today's owner/manager. In the long run, we hope to prove that small is indeed possible—and a beautiful way to strengthen the economy.

The Utah SBDC at BYU has been busy since its recent opening, providing information and consulting services to approximately 60 businesses in the first several months of its existence. About half of the clients seeking assistance are individuals interested in starting a new business or individuals trying to market a new product. The SBDC is also working with several ongoing businesses representing clients in the travel industry, deep drilling, cleaning services, furniture manufacturing, and retailing. Consulting is provided in all areas, including management, record keeping, marketing, expansion, financing, and accounting.

The following cases portray the diversity of requests and the intriguing challenges facing small, locally owned enterprise.

Bill Wadsworth has been working since 1959 on his ideas for a series of games and puzzles. He now has invented over 80 variations of his ideas. Being forced to work on his ideas part time, supporting himself on odd jobs, and being undercapitalized have hampered his ability to produce his product for sale. Wadsworth has had plenty of creative ideas but not the expertise to create a business.

Recently Bill formed a management team that is interested in his product and willing to advise him on how to proceed. An interested manufacturer has agreed to make 110 prototypes of the "Pentamino Challenge" to begin marketing the innovative game. BYU's

Small Business Development Center is working closely with Wadsworth, helping him to write a business plan that will present his ideas to potential investors as well as assist in other areas of business management.

A recent graduate from the Design Engineering Technology program at BYU, Barry Phillips, got his start on a student consulting project helping a business organize their computer system. This led Phillips to design and produce an application software package for architects using the popular AutoCAD program. This product, plus additional software he has produced, allowed Phillips to launch his own company, AUTOEASE. Now being wooed by several large companies, Phillips will begin marketing his software through Business Land, Inc., this summer. The SBDC is helping AUTOEASE study market feasibility options in order to develop an effective marketing strategy.

A Provo travel agency began an innovative, aggressive marketing campaign that tripled their sales over a three-month period. This rapid expansion produced a cash flow crunch as well as other management problems that dramatically increased growth can create. The SBDC gave assistance in seeking outside investors and in developing a prebilling system to meet cash flow needs.

R.B. Davis and Company is a successful professional maintenance firm in Utah Valley that had its beginnings two years ago. It is a family-owned business that began with the father taking a part-time job and evolved into him starting a business that now employs all family members old enough to work as well as 40 other individuals. The business has expanded to the point where it needs a more formal method of accounting to keep track of company records. The Small Business Development Center has suggested an accounting system and is providing assistance in adapting the new system to the Davis's business. ■■■