

## Startup Vs Small Business

A small business isn't in search of a business model that works down the line—they're looking for a business model that works from day one.

A small business is a self-sustaining organization that generates revenue from the first day of opening. They don't require major investments and time to formulate a company that works. Typically, a small business brings in a relatively small amount of sales, enters a local or regional market, and has a small number of employees. The official definition of a small business is set by the size standards by industry from the SBA.

### The Key Differences between a Startup and a Small Business

Now that you know the definition of a startup and a small business (and how they're different from large corporations), the differences between the two entities begin to make a lot more sense. Namely, startups and small businesses are different in the following important ways.

#### The Growth Intent

The intent of the startup founder is to disrupt the market with an impactful business model. They want to take over the market.

But for startups, that's not going to happen overnight. They require initial investments, and those investments won't return immediate results. Therefore, a startup probably won't be profitable in its first, second, or even third year (and some startups never even reach profitability).

But startup founders set out to search for the right business model that scales to enormous heights in a massive market—as fast as possible.

This distinction also speaks to the industry in which you find the most startups: the tech industry. Startups are typically online or technology-oriented businesses that can easily reach a large market.

To operate a small business, on the other hand, you don't need a big market to grow into. You just need a market and you need to be able to reach and serve all of those within your market in an efficient way.

Ask anyone to name a small business and they might name their local deli, coffee shop, plumber, or electrician. They're not disrupting an industry, but are attempting to be profitable within it.

## The Funding Methods

One commonality that small businesses and startups do share is the challenge of finding financing. Giving money to both a small business and a startup is a risky endeavor. And if you're starting your own business or startup, it's important to know what you're getting yourself into when it comes to financing.

Startups typically look for major investments right off the bat. And they work with investors who are also looking to make major investments—but are picky about who they put their confidence in.

Venture capitalists and angel investors typically invest a minimum of \$1 million in what's called "rounds." And in exchange for the capital, founders give away equity in the company to the investors—diversifying the ownership structure.

On the other hand, small business owners typically turn to debt financing through small business loans to meet their funding goals. Traditional banks and online lenders offer smaller amounts of capital, and charge interest for the funding. While small business owners have to pay more in the end for the capital, the integrity of their ownership stays completely intact.

When it comes down to it, startups partner with their financiers, and small business owners treat funding on a more transactional level.

## Different “End Visions”

Every small business owner has a different intention of what they hope their small business will become—but generally speaking, small business owners intend to create self-sustaining and long-lasting small businesses.

Startups, however, are intended to be temporary. If all goes well, that startup turns into a massive company—experiencing an IPO (initial public offering) event. Another common reality of a startup is a buy-out from a larger company.

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