Fundamentals of Entrepreneurship

Entrepreneur and characteristics of successful Entrepreneur

Week #5

Entrepreneur/ship, just like management, has no single definition. An entrepreneur is a person who is action oriented, highly motivated, takes risks to achieve goals. An entrepreneur is a person who establishes his own business with the intention of making profits. An entrepreneur is a person who only provides capital without taking active part in the leading role in an enterprise. An entrepreneur is a one who innovates, raise money, assemble input, choose managers and set the organization growing.

To sum up in the light of the developments, there are four key elements of entrepreneurs. These are:

Vision (identifying emerging opportunities)

Innovation (creating new business or new ways of doing something)

Risk bearing (taking risk and facing uncertainty)

Organizing (collection and coordination of the necessary resources)

Entrepreneurship, like an entrepreneur, has no single definition. Entrepreneur is a person while entrepreneurship is a process. Entrepreneurship is a process under taken by an entrepreneur to create incremental value and wealth by discovering investment opportunities, organizing enterprises, undertaking risks and economic uncertainty and there by contributing to economic growth

Historical Perspective: During the ancient period the word entrepreneur was used to refer to a person managing large commercial projects through there sources provided to him. In the 17th Century a person who has signed a contractual agreement with the government to provide stipulated products or to perform service was considered as entrepreneur. In the 18th Century the first theory of entrepreneur has been developed by Richard Cantillon. He said that an entrepreneur is a risk taker. If we consider the merchant, farmers and /or the professionals they all operate at risk. For example, the merchants buy products at a known price and sell it at unknown price and this shows that they are operating at risk.

The other development during the 18th Century is the differentiation of the entrepreneurial role from capital providing role. The later role is the base for today's venture capitalist. In the late 19th and early 20th Century an entrepreneur was viewed from economic perspectives. The entrepreneur organizes and operates an enterprise for personal gain. In the middle of the 20th and early 21thCentury the notion of an entrepreneur as an inventor was established.

motivation behind the launch of an entrepreneurial firm. Some entrepreneurs even report that the financial rewards associated with entrepreneurship can be bittersweet if they are accompanied by losing control of their firm. For example, Sir Richard Branson, after selling Virgin Records, wrote, "I remember walking down the street [after the sale was completed]. I was crying. Tears ... [were] streaming down my face. And there I was holding a check for a billion dollars.... If you'd have seen me, you would have thought I was loony. A billion dollars."[19] For Branson, it wasn't just the money—it was the thrill of building the business and of seeing the success of his initial idea.

Characteristics of Successful Entrepreneurs

LEARNING OBJECTIVE

3. Identify four main characteristics of successful entrepreneurs.

Although many behaviors have been ascribed to entrepreneurs, several are common to those who are successful. Those in new ventures and those who are already part of an entrepreneurial firm share these qualities, which are shown in Figure 1.1 and described in the following section.

Passion for the Business

The number-one characteristic shared by successful entrepreneurs is a **passion for their business**, whether it is in the context of a new firm or an existing business. This passion typically stems from the entrepreneur's belief that the business will positively influence people's lives. Making a difference in people's lives is also the primary motivator behind many social enterprises, which are often started by people who set aside promising careers to pursue a social goal. This was the case with John Wood, who founded Room to Read and is the author of the book *Leaving Microsoft to Change the World*. Wood's deep passion to help children in the developing world caused him to start cashing in small amounts of Microsoft stock to buy books and build schools, even before he left the company. In excerpts from an interview published by *Forbes* magazine, Wood said:

> During my travels, I met so many children in the poorest parts of the world, lacking access to school, books, and libraries, that I began cashing in small amounts of stocks to help them. Two hundred shares of Microsoft stock was enough to build an entire school in rural Nepal.[20]

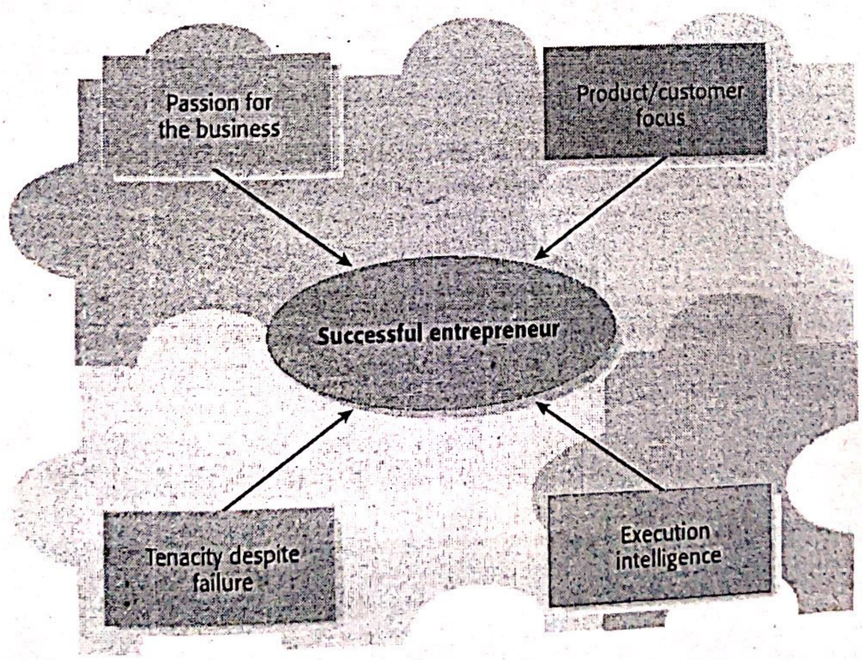


FIGURE 1.1
Four Primary Characteristics of Successful Entrepreneurs

Wood eventually left Microsoft to work on Room to Read full time. Since its inception in 2000, Room to Read has built 1,450 schools, established 12,522 libraries, distributed over 10 million children's books, and funded 13,662 long-term girls' schlorships in developing parts of the world.[21]

Passion is particularly important for both for-profit and not-for-profit entrepreneurial organizations because although rewarding, the process of starting a firm or building a social enterprise is demanding. There are five primary reasons passion is important, as reflected in Table 1.2. Each of these reasons reflects a personal attribute that passion engenders. Removing just one of these qualities would make it much more difficult to launch and sustain a successful entrepreneurial organization.

A note of caution is in order here: While entrepreneurs should have passion, they should not wear rose-colored glasses. It would be a mistake to believe that all one needs is passion and anything is possible. It is important to be enthusiastic about a business idea, but it is also important to understand its potential flaws and risks. In addition, entrepreneurs should understand that the most effective business ideas take hold when their passion is consistent with their skills and is in an area that represents a legitimate business opportunity.

To illustrate the importance of passion, as well as other factors that are critical in determining a firm's success or failure, we include a boxed feature titled "What Went Wrong?" in each chapter. The feature for this chapter shows how Prim, a laundry and pick-up and delivery service, ultimately failed in part because its founders were not able to remain passionate about their business idea.

TABLE 1.2 Five Primary Reasons Passion Is Important for the Launch of a Successful Entrepreneurial Organization

Reason Passion Is Important	Explanation
1. The ability to learn and iterate	Founders don't have all the answers. It takes passion and drive to solicit feedback, make necessary changes, and move forward. The changes won't always be obvious. Passion makes the search for the right answers invigorating and fun.
2. A willingness to work hard for an extended period of time	Commonly, entrepreneurs work longer hours than people with traditional jobs. You can only do that, on a sustained basis, if you're passionate about what you're doing.
3. Ability to overcome setbacks and "no's"	It's rare that an entrepreneur doesn't experience setbacks and hear many "no's" from potential customers, investors, and others while building an entrepreneurial business or social enterprise. The energy to continue comes from passion for an idea.
4. The ability to listen to feedback on the limitations of your organization and yourself	You'll meet plenty of people along the way—some with good intentions and some without—who will tell you how to improve your organization and how to improve yourself. You have to be willing to listen to the people with good intentions and make changes if it helps. You have to be able to brush aside feedback from people with bad intentions without letting them get you down.
5. Perseverance and persistence when the going gets tough	Perseverance and persistence come from passion. As an entrepreneur, you'll have down days. Building an entrepreneurial organization is fraught with challenges. Passion is what provides an entrepreneur the motivation to get through tough times.

Source: Based on A. Sack, "Why Is Passion So Important to a Startup?" A Sack of Seattle blog, http://asack.typepad.com/a_sack_of_seattle/2010/03/why-is-passion-so-important-to-a-startup.html (accessed May 22, 2011, originally posted on March 16, 2010).

WHAT WENT WRONG?

Prim: How a Lack of Passion and Resolve Can Kill a Business

Prim's idea was to disrupt the laundry industry. A growing number of people in the United States are using laundry services to wash and fold their clothes. The problems with these services is that they are a hassle. In most instances customers have to bag their laundry, drop them off at the laundry service, and then pick them up later. Many services have lines at the busiest times of the day, which result in drivers having to wait to drop off or pick up their laundry.

Prim's launched in mid-2013, after passing through the prestigueous Y-Combiator business accelerator program earlier that year. Here's how Prim's laundry service worked. A customer bagged her/his laundry, and then went online to choose a pickup and delivery time. The price was $25 for the first bag and $15 for each additional bag. The bags would be picked up by a driver recruited by a third-party delivery service. (Rickshaw was the name of the delivery service in the city where Prim started). Everything would be back, washed and folded, later that day or early the next day. No cash changed hands between the customer and the pickup or delivery drivers. Everything was paid for through Prim's website. Prim gained favorable press and early momentum. When it closed, it was handling 1,000 pounds of laundry a day from 40 clients and was growing. What went wrong?

Two things went wrong with Prim. First, once Prim got your clothes, it went from a innovative disruptor to an old-school company. It would take your clothes to a laundry service and utilize its wash and fold services. Prim negotiated volume discounts with several laundry services, but the discounts were verbal and were not in writing. What Prim didn't count on was the partnerships going sour. While the laundry services were initially receptive to working with Prim, they had their own delivery services and eventually saw Prim as siphoning off their customers and revenue. During its short history, Prim churned through three different laundry services.

The second thing that went wrong with Prim was a lack of passion and resolve on the part of its founders. Faced with the reality that working with local laundry services was a fragile business model, Prim's founders, Yin Yin Wu and Xuwen Cao, had a decision to make. Should they build or lease their own laundry service? This was a daunting prospect, given the hundreds of thousands of dollars necessary to build and staff a high-volume laundry wash and fold facility. Even more daunting was the prospect that this step would need to be repeated in each new market Prim entered. After two months of deliberation, Wu and Cao pulled the plug. While they estimated that by constructing their own laundry service they could build a profitable business in 5 to 10 years, with revenues of $10 million to $15 million, it was a direction they simply did not want to pursue. Both were computer science students in college and had no direct experience in the laundry business. In an article published by CNNMoney, Garry Tan, a partner with Y-Combinator, reflecting on why Wu and Cao closed Prim, said, "They didn't want to actually have to wash the laundry—they wanted to be the connector."

Questions for Critical Thinking

1. Why is passion such a critical part of entrepreneurial success? Prim's founders were apparently passionate about building a company but not passionate about the laundry business specifically. In what ways is this combination problematic?
2. How could Prim's co-founders have better anticipted that laundry services would eventaully see Prim as siphoning off their own business and be reluctant to work with them?
3. Rather than employ its own drivers to pick up and deliver laundry for its customers, Prim relied on the use of third-party delivery services. In what ways do you think this approach could have limited Prim's growth in other markets?
4. San Francisco, the city in which Prim launched, has several innovative laundry services. These services include LaundryLocker, where you drop your clothes in a public locker, Sfwash, a delivery service where you pay by the pound, and Sudzee, which requires special lockable bags. Spend some time studying LaundryLocker (https://laundrylocker.com), Sfwash (https://sfwash.com), and Sudzee (https://sudzee.com). Select the service that you think has the most potential and explain the rationale for your selection. Compare the service to Prim's approach.

Sources: J. P. Mangalindan, "Prim: Anatomy of a Folded Startup," CNNMoney, available at http://tech.fortune.com/2014/01/22-prim-anatomy-of-a-folded-startup, posted January 22, 2014, accessed March 14, 2014; J. Constine, "Prim Laundry Startup Throws in the Towel," Techcrunch, available at http://techcrunch.com/2014/01/06/prim-laundry-shuts-down, posted Jan 6, 2014, accessed March 14, 2014.

Product/Customer Focus

A second defining characteristic of successful entrepreneurs is a **product/customer focus**. This quality is exemplified by Steven Jobs, the late co-founder of Apple Inc., who wrote, "The computer is the most remarkable tool we've ever built ... but the most important thing is to get them in the hands of as many people as possible."[22] This sentiment underscores an understanding of the two most important elements in any business—products and customers. While it's important to think about management, marketing, finance, and the like, none of those functions makes any difference if a firm does not have good products with the capability to satisfy customers.

This philosophy is affirmed by Alex Algard, the founder of WhitePages.com. WhitePages.com started in 1997 to provide consumers a free, accurate, and fast online alternative to telephone directory assistance. It is one of the most trusted and comprehensive sources for consumers to quickly find relevant, accurate contact information in North America. When asked how he was able to grow WhitePages.com from a one person operation in 1997 to the multimillion-dollar company it is today, Algard's reply reflected not only his feelings about the importance of providing value to both users and customers but also how a company measures if the value is being successfully delivered:

> The philosopny that we as a company have always stuck to is that everything we build has to provide real value to both our users and customers. The best measurement of whether or not we are successful at delivering something valuable is if our customers, advertisers in our case, are willing to pay.[23]

A product/customer focus also involves the diligence to spot product opportunities and to see them through to completion. The idea for the Apple Macintosh, for example, originated in the early 1980s when Steven Jobs and several other Apple employees took a tour of a Xerox research facility. They were astounded to see computers that displayed graphical icons and pull-down menus. The computers also allowed users to navigate desktops using a small, wheeled device called a mouse. Jobs decided to use these innovations to create the Macintosh, the first user-friendly computer. Throughout the two and a half years the Macintosh team developed this new product, it maintained an intense product/customer focus, creating a high-quality computer that is easy to learn, fun to use, and meets the needs of a wide audience of potential users.[24]

Tenacity Despite Failure

Because entrepreneurs are typically trying something new, the possibility of failure exists. In addition, the process of developing a new business is somewhat similar to what a scientist experiences in the laboratory. A chemist, for example, typically has to try multiple combinations of chemicals before finding an optimal combination that can accomplish a certain objective. In a similar fashion, developing a new business idea may require a certain degree of experimentation before a success is attained. Setbacks and failures inevitably occur during this process. The litmus test for entrepreneurs is their ability to persevere through setbacks and failures.

An example of the degree of tenacity it sometimes takes to launch a successful firm is provided by Jerry Stoppelman and Russel Simmons, the founders of Yelp, the popular online review site. The original idea for Yelp, which was founded in 2004, is that when people are looking for a new restaurant, dentist, or plumber they normally ask their friends for recommendations. Yelp was launched to give people the ability to e-mail a list of their friends and ask for a recommendation. The message included a link that allowed the friend to easily respond. The business plan didn't work. People started complaining that they were getting too many e-mail messages from friends who often didn't have a recommendation to provide. Yelp could have died at this point. Instead, Stoppelman and Simmons demonstrated the tenacity it often takes to keep a business alive. Curiously, the one aspect of Yelp's business plan that did work was the ability to write your own review—a feature that had been included by Stoppelman and Simmons almost as an afterthought. Rather than responding to a friend's request for a recommendation, people seemed to enjoy sharing information about their favorite restaurant or hair salon without being asked. In 2005, Yelp pivoted and revised its business plan. The new plan dropped the "e-mail your friend idea" and focused on providing a platform for people to proactively write reviews of local businesses. Today, Yelp is one of the most popular review sites on the Internet.

An additional example of tenacity, which involved all the employees of Pandora,[25] is provided in the boxed feature titled "Savvy Entrepreneurial Firm." In each chapter, this feature will provide an illustration of the exemplary behavior of one or more entrepreneurial firms or will provide an example of a tool or technique that well-managed entrepreneurial firms use to improve their performance.

Execution Intelligence

The ability to fashion a solid idea into a viable business is a key characteristic of successful entrepreneurs. Commonly, this ability is thought of as **execution intelligence**.[26] In many cases, execution intelligence is the factor that determines whether a start-up is successful or fails. An ancient Chinese saying warns, "To open a business is very easy; to keep it open is very difficult."

The ability to effectively execute a business idea means developing a business model, putting together a new venture team, raising money, establishing partnerships, managing finances, leading and motivating employees, and so on. It also demands the ability to translate thought, creativity, and imagination into action and measurable results. As Jeff Bezos, the founder of Amazon.com, once said, "Ideas are easy. It's execution that's hard."[27] For many entrepreneurs, the hardest time is shortly after they launch their firm. This reality was expressed by Jodi Gallaer, the founder of a lingerie company, who said, "The most challenging part of my job is doing everything for the first time."[28]

To illustrate solid execution, let's look at Starbucks. The business idea of Howard Schultz, the entrepreneur behind the success of Starbucks, was his recognition of the fact that most Americans didn't have a place to enjoy coffee in a comfortable, quiet setting. Seeing a great opportunity to satisfy customers' needs, Schultz attacked the marketplace aggressively to make Starbucks the industry leader and to establish a national brand. First, he hired a seasoned management team, constructed a world-class roasting facility to supply his outlets with premium coffee beans, and focused on building an effective organizational infrastructure. Then Schultz recruited a management information systems expert from McDonald's to design a point-of-sale system capable of tracking consumer purchases across 300 outlets. This decision was crucial to the firm's ability to sustain rapid growth over the next several years. Starbucks succeeded because Howard Schultz knew how to execute a business idea.[29] He built a seasoned management team, implemented an effective strategy, and used information technology wisely to make his business thrive.[30] These fundamental aspects of execution excellence should serve Schultz and Starbucks when it comes to dealing with the competitive challenges facing the firm in 2014 and beyond. In mid-2014, over 21,000 Starbucks' locations had been established in 65 countries.

SAVVY ENTREPRENEURIAL FIRM

Pandora: What's Possible When an Entire Company Has "Tenacity"

Web: ***www.pandora.com; Facebook: Pandora, Twitter: @pandora_radio***

Most everyone is familiar with Pandora, the Internet radio station. The service plays music of a certain genre based on the artist or type of music the user selects. The user then provides positive or negative feedback for songs chosen by Pandora, which are taken into account when the service selects future songs. While listening, users are offered the opportunity to buy the songs or albums at online retailers. Over 400 different musical attributes are considered when selecting the next song for a user. The goal is to provide the user the precise type of music that s/he wants to hear. Pandora has two subscription plans: a free service supported by ads and a fee-based service without ads. Pandora went public on June 15, 2011, and is now traded on the New York Stock Exchange. As of that date, Pandora had 800,000 songs from over 80,000 artists in its music library and 80 million users. A year later it reported it had 150 million users.

Impressive, isn't it? But, as the old saying goes, wait until you hear the rest of the story. Pandora was founded in 1999 by Tim Westergren, a musician and film composer. The company raised $1 million just before the Internet bubble burst. At that time, Pandora's business model was to license its technology to other companies. The initial investment lasted about a year, which gave Westergren and his team enough time to build a prototype and have a product to show to potential customers. Then the money ran out. Pandora spent the next two and a half years essentially broke, earning only enough to keep the lights on. What was needed was an additional investment. Westergren pitched over 300 venture capitalists before one finally said yes. Pandora eventually shifted its business model to offer the Internet radio streaming service that it features today. Fast forward to the present: Today Pandora has over 250 million registered users.

So how did Pandora do it? How did it survive two and a half years with essentially no money? The answer: Its employees agreed to work for no pay. They agreed to a deferred compensation plan, meaning they would get paid if and when the company raised money. Some used credit cards to survive, some had working spouses or significant others, and others worked two jobs. Reflecting on this period in Pandora's history, Westergren, who was the first person to go without pay, said the employees agreed to the plan for two reasons. First, they believed in Pandora and its idea. They also believed that Pandora would ultimately raise money and become a successful business. Second, the employees felt a sense of responsibility for one another. If one left, the burden would be greater on the others. As time went on, Westergren believes, those relationships deepened and the employees ultimately stuck it out for one another.

When the funding did come through each employee was given his/her entire back pay. This is a very unusual outcome in the funding world. Usually, new money isn't used to solve old problems, it's used to build for the future. Westergren credits his investors for the outcome. He's said that what the investors were investing in was the tenacity of the Pandora team.

Lesson Learned: This is what can be accomplished when an entire company demonstrates the tenacity necessary to build a successful entrepreneurial firm.

Questions for Critical Thinking

1. How do you think Westergren was able to perservere through 300 rejections before an investor finally said yes to Pandora's attempts to raise additional money?
2. If you had been a Pandora employee during the time the firm was essentially broke, would you have agreed to work for no money? Westergren provided two reasons that the employees present at the time were willing to work without pay. Would these reasons have been good enough for you? Explain your answer.
3. Think of a time in your life where you showed tenacity and the tenacity produced positive outcomes. Briefly relate the story and what you learned from the experience to your classmates.
4. What lesson or lessons can other entrepreneurial startups learn from Pandora's story?

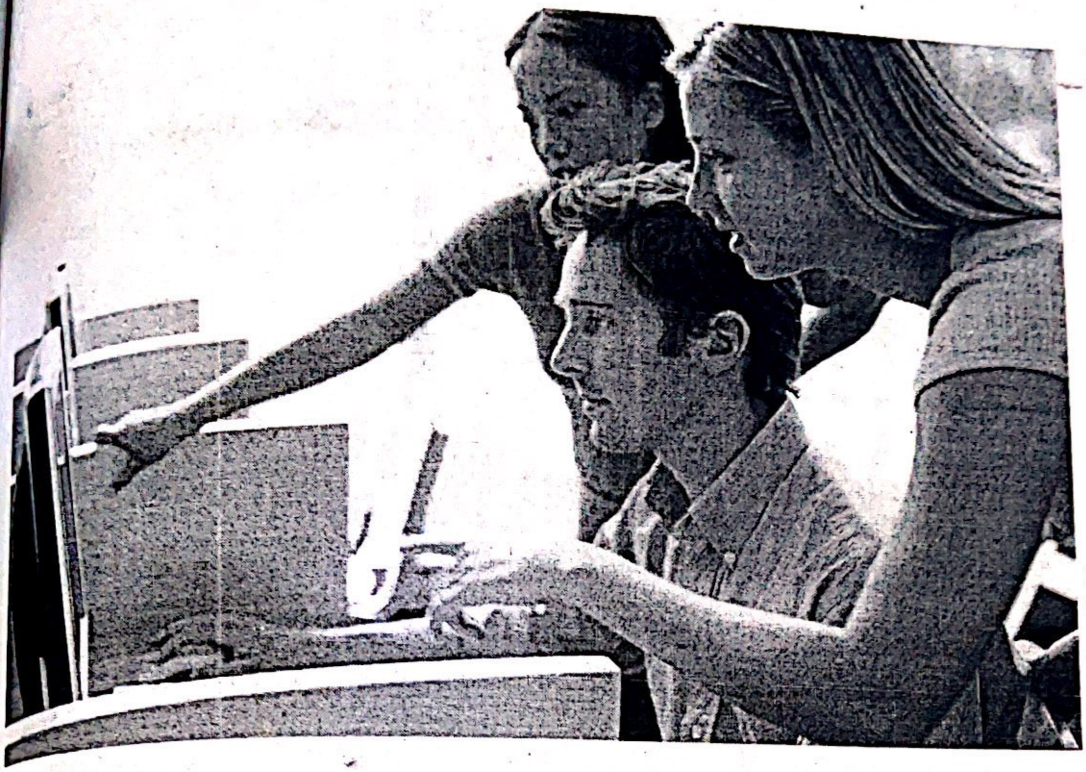
Sources: W. Wei, "How Pandora Survived More Than 300 VC Rejections," *Business Insider*, July 14, 2010, available at www.businessinsider.com/pandora-vc-2010-7

Common Myths About Entrepreneurs

LEARNING OBJECTIVE

4. Explain the five common myths regarding entrepreneurship.

There are many misconceptions about who entrepreneurs are and what motivates them to launch firms to develop their ideas. Some misconceptions are because of the media covering atypical entrepreneurs, such as a couple of college students who obtain venture capital to fund a small business that they grow into a multimillion-dollar company. Such articles rarely state that the



Laura Doss/Fancy/Corbis

You might describe an entrepreneur as an independent thinker, an innovator, or perhaps a risk taker. These young entrepreneurs are passionate enough to work at a hectic pace if that's what it takes to get their company up and running.

entrepreneurs are the exception rather than the norm and that their success is a result of carefully executing an appropriate plan to commercialize what inherently is a solid business idea. Indeed, the success of many of the entrepreneurs we study in each chapter's Opening Profile is a result of carefully executing the different aspects of the entrepreneurial process. Let's look at the most common myths and the realities about entrepreneurs.

Myth 1: Entrepreneurs Are Born, Not Made

This myth is based on the mistaken belief that some people are genetically predisposed to be entrepreneurs. The consensus of many hundreds of studies on the psychological and sociological makeup of entrepreneurs is that entrepreneurs are not genetically different from other people. This evidence can be interpreted as meaning that no one is "born" to be an entrepreneur and that everyone has the potential to become one. Whether someone does or doesn't is a function of environment, life experiences, and personal choices.[31] However, there are personality traits and characteristics commonly associated with entrepreneurs; these are listed in Table 1.3. These traits are developed over time and evolve from an individual's social context. For example, studies show that people with parents who were self-employed are more likely to become entrepreneurs.[32] After witnessing a father's or mother's independence in the workplace, an individual is more likely to find independence appealing.[33] Similarly, people who personally know an entrepreneur are more than twice as likely to be involved in starting a new firm as those with no entrepreneur acquaintances or role models.[34] The positive impact of knowing an entrepreneur is explained by the fact that direct observation of other entrepreneurs reduces the ambiguity and uncertainty associated with the entrepreneurial process.

Myth 2: Entrepreneurs Are Gamblers

A second myth about entrepreneurs is that they are gamblers and take big risks. The truth is, entrepreneurs are usually **moderate risk takers**, as are

TABLE 1.3 Common Traits and Characteristics of Entrepreneurs

A moderate risk taker	Optimistic disposition
Persuasive	A networker
Promoter	Achievement motivated
Resource assembler/leverager	Alert to opportunities
Creative	Self-confident
Self-starter	Decisive
Tenacious	Energetic
Tolerant of ambiguity	A strong work ethic
Visionary	Lengthy attention span

most people.[35] This finding is affirmed by The Hartford's 2013 Small Business Success Study. The study conducted a survey of 2,600 business owners. A total of 79 percent of the participants rated themselves as conservative rather than risky.[36] The idea that entrepreneurs are gamblers originates from two sources. First, entrepreneurs typically have jobs that are less structured, and so they face a more uncertain set of possibilities than managers or rank-and-file employees.[37] For example, an entrepreneur who starts a social network consulting service has a less stable job than one working for a state governmental agency. Second, many entrepreneurs have a strong need to achieve and often set challenging goals, a behavior that is sometimes equated with risk taking.

Myth 3: Entrepreneurs Are Motivated Primarily by Money

It is naïve to think that entrepreneurs don't seek financial rewards. As discussed previously, however, money is rarely the primary reason entrepreneurs start new firms and persevere. The importance and role of money in a start-up is put in perspective by Colin Angle, the founder and CEO of iRobot, the maker of the popular Roomba robotic vacuum cleaner. Commenting on his company's mission statement, Angle said:

> Our, "Build Cool Stuff, Deliver Great Products, Have Fun, Make Money, Change the World" (mission statement) kept us (in the early days of the Company) unified with a common purpose while gut-wrenching change surrounded us. It reminded us that our goal was to have fun and make money. Most importantly, it reminded us that our mission was not only to make money, but to change the world in the process.[38]

Some entrepreneurs warn that the pursuit of money can be distracting. Media mogul Ted Turner said, "If you think money is a real big deal ... you'll be too scared of losing it to get it."[39] Similarly, Sam Walton, commenting on all the media attention that surrounded him after he was named the richest man in America by *Forbes* magazine in 1985, said:

> Here's the thing: money never has meant that much to me, not even in the sense of keeping score.... We're not ashamed of having money, but I just don't believe a big showy lifestyle is appropriate for anywhere, least of all here in Bentonville

where folks work hard for their money. We all know that everyone puts on their trousers one leg at a time.... I still can't believe it was news that I get my hair cut at the barbershop. Where else would I get it cut? Why do I drive a pickup truck? What am I supposed to haul my dogs around in, a Rolls-Royce?[40]

Myth 4: Entrepreneurs Should Be Young and Energetic

Entrepreneurial activity is fairly evenly spread out over age ranges. The age distribution of business owners, determined by the Kauffman Foundation and LegalZoom 2012 Startup Environment Index, is shown in Table 1.4. As shown, the majority of individuals who start companies are in their thirties and forties. Not suprisingly, given this age distribution, the majoity of business owners have work experience prior to launching a new venture.[41] Although it is important to be energetic, investors often cite the strength of the entrepreneur (or team of entrepreneurs) as their most important criterion in the decision to fund new ventures.[42] In fact, a sentiment that venture capitalists often express is that they would rather fund a strong entrepreneur with a mediocre business idea than fund a strong business idea and a mediocre entrepreneur. What makes an entrepreneur "strong" in the eyes of an investor is experience in the area of the proposed business, skills and abilities that will help the business, a solid reputation, a track record of success, and passion about the business idea. The first four of these five qualities favor older rather than younger entrepreneurs.

Myth 5: Entrepreneurs Love the Spotlight

Indeed, some entrepreneurs are flamboyant; however, the vast majority of them do not attract public attention. In fact, many entrepreneurs, because they are working on proprietary products or services, avoid public notice. Consider that entrepreneurs are the source of the launch of many of the 5,000 companies listed on the NASDAQ, and many of these entrepreneurs are still actively involved with their firms. But how many of these entrepreneurs can you name? Perhaps three or four? Most of us could come up with Jeff Bezos of Amazon.com, Mark Zuckerberg of Facebook, and maybe Larry Page and Sergey Brin of Google or Larry Ellison of Oracle. Whether or not they sought attention, these are the entrepreneurs who are often in the news. But few of us could name the founders of Netflix, Twitter, or DIRECTV, even though we

TABLE 1.4 Age Distribution of Business Owners

Age	Percentage of Business Owners
18-29	17.5
30-39	25
40-49	24
50-59	21
60+	12.5

Source: The Kauffman Foundation and LegalZoom 2102 Startup Environment Index, The Ewing Marion Kauffman Foundation, February 2013. The numbers are based on a survey of 1,431 individuals who formed a business through LegalZoom in 2012.

frequently use these firms' services. These entrepreneurs, like most, have either avoided attention or been passed over by the popular press. They defy the myth that entrepreneurs, more so than other groups in our society, love the spotlight.

Types of Start-Up Firms

LEARNING OBJECTIVE

5. Describe the three types of start-up firms.

As shown in Figure 1.2, there are three types of start-up firms: salary-substitute firms, lifestyle firms, and entrepreneurial firms.

Salary-substitute firms are small firms that yield a level of income for their owner or owners that is similar to what they would earn when working for an employer. Dry cleaners, convenience stores, restaurants, accounting firms, retail stores, and hairstyling salons are examples of salary-substitute firms. The vast majority of small businesses fit into this category. Salary-substitute firms offer common, easily available and not particularly innovative products or services to customers.

Lifestyle firms provide their owner or owners the opportunity to pursue a particular lifestyle and earn a living while doing so. Lifestyle firms include personal trainers, golf and tennis pros, the owners of bed & breakfasts, and tour guides. These firms are not innovative, nor do they grow quickly. Commonly, lifestyle companies promote a particular sport, hobby, or pastime and may employ only the owner or just a handful of people.

Entrepreneurial firms bring new products and services to market. As we noted earlier in this chapter, the essence of entrepreneurship is creating value and then disseminating that value to customers. In this context, **value** refers to worth, importance, or utility. Entrepreneurial firms bring new products and services to market by creating and then seizing opportunities. Dropbox, Facebook, and LinkedIn are well-known, highly successful examples of entrepreneurial firms. Having recognized an opportunity, the entrepreneurs leading companies of this type create products and services that have worth, are important to their customers, and provide a measure of usefulness to their customers that they wouldn't have otherwise.

One characteristic of entrepreneurial firms, which will be explored throughout this book, is that they partner with other firms and organizations, often to obtain the boost they need to realize their full potential. In each chapter, look for the boxed feature titled "Partnering for Success," which illustrates how entepreneurial firms used partnerships to increase their chances for success. This feature in this chapter discusses how entreprenurs and their firms are engaging business incubators and accelerators to gain access to mentors, partners, investors, and other critical start-up resources.

Next, we describe the newly emerging characteristics of today's entrepreneurs. You may be surprised to learn about the types of individuals who are choosing to become entrepreneurs! While reading these characteristics, think about people you know who are accurately described by these characteristics. Do you think any of these people will choose to become entrepreneurs?

FIGURE 1.2
Types of Start-Up Firms