

# ENTREPRENEURIAL PATHWAYS

Entrepreneurship

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## Chapter 1

# ENTREPRENEURS RECOGNIZE OPPORTUNITIES



*Tom Szaky from  
TerraCycle Inc.*

## "Everyone lives by selling something."

—Robert Louis Stevenson,  
Scottish author

**T**om Szaky was a 19-year-old college student in need of inspiration for a business plan competition, when he happened to visit friends who were using red worms to compost waste that they then used as plant fertilizer. The idea captured his imagination, and he created a business plan for an environmentally friendly company that would convert trash into fertilizer. Although he finished in fifth place in the competition, Szaky moved ahead to make the company a viable venture.<sup>1</sup>

TerraCycle, Inc. has expanded its product lines to encompass a wide range of recycling and upcycling, including branded products for Target and Kraft Foods. The company is the producer of the world's first product made from and packed in waste. Szaky sells to some of the world's largest retailers, including Wal-Mart, Target, and Home Depot and has programs that involve entire communities in recycling products. Sales exceed \$20 million per year, and the company has collected literally billions of pieces of waste. TerraCycle plant food was named the most eco-friendly product in Home Depot, twice. Tom Szaky and TerraCycle have turned trash into treasure.

### Performance Objectives

1. Explain what entrepreneurs do.
2. Describe how free-enterprise economies work and how entrepreneurs fit into them.
3. Find and evaluate opportunities to start your own business.
4. Explain how profit works as a signal to the entrepreneur.

## Entrepreneurship Defined

Have you ever eaten a Mrs. Fields cookie? Used an Apple computer? Listened to a hip-hop CD? The entrepreneurs that founded these companies brought these products into your world.

### What Is an Entrepreneur?

Most Americans earn money by working in *business*. They are engaged in the buying and selling of products or services in order to make money.

- A **product** is something that exists in nature or is made by human beings. It is *tangible*, meaning that it can be physically touched.
- A **service** is labor or expertise (rather than a tangible commodity) exchanged for money. It is *intangible*. You cannot actually touch it.

Someone who earns a living by working for someone else's business is an employee of that business. There are many kinds of employees. At Ford Motor Company, for instance, some employees build the cars, some sell the cars, and some manage the company. But employees all have one thing in common—they do not own the business; they work for others who do. They know how much money they can earn, and that amount is limited to salary plus bonuses and any stock options they may receive.

Some people start their own businesses and work for themselves. They are called **entrepreneurs**. Entrepreneurs are often both owners and employees. For an entrepreneur, the sky is the limit as far as earnings are concerned. Unlike an employee, an entrepreneur owns the profit that his

**product** something tangible that exists in nature or is made by human beings.

**service** intangible work that provides time, skills, or expertise in exchange for money.

**entrepreneur** a person who organizes and manages a business, assuming the risk for the sake of potential return.

**Performance Objective 1**

Explain what entrepreneurs do.

or her business earns and may choose whether to reinvest it in the business or take it as payment.

An entrepreneur is someone who recognizes an opportunity to start a business that other people may not have noticed and jumps on it. As economist Jeffry A. Timmons writes in the preface of *New Venture Creation: Entrepreneurship for the 21st Century*, “A skillful entrepreneur can shape and create an opportunity where others see little or nothing—or see it too early or too late.”

The French word *entrepreneur* began to take on its present-day meaning in the seventeenth century. It was used to describe someone who undertook any project that entailed risk—military, legal, political, as well as economic. Eventually it came to mean someone who started a new business—often a new kind of business or a new (and improved) way of doing business. French economist Jean-Baptiste Say wrote at the turn of the nineteenth century: “The entrepreneur shifts economic resources [like wood or coal] out of an area of lower and into an area of higher productivity and greater yield.” By doing this, Say argued, entrepreneurs added value to scarce resources. Coal is a resource because it is used as fuel. Wood is a resource because it can be used to build a house or a table or to make paper (as well as used for fuel). Economists consider *scarce* all resources that are worth money.

Debbi Fields took resources—eggs, butter, flour, sugar, and chocolate chips—and turned them into cookies. People liked what she did with those resources so much that they were willing to pay her more for the cookies than it cost her to buy the resources to make them. She added value to the resources she purchased by what she did with them and created a multimillion-dollar business in the process.

Entrepreneurs may have different reasons to start and continue their businesses, but they share the common focus of creating sustained value for themselves. Entrepreneurs seek opportunities that they envision as generators of incremental income, or wealth. Whether the business is intended to meet short-term household cash needs or to grow into a publicly traded company, viability is critical. Each activity of the firm should be driven by this need.

## The Economic Questions<sup>2</sup>

Since the beginnings of human society, people have had to answer the same basic questions:

- What should be produced?
- When will it be produced?
- How will it be produced?
- Who will produce it?
- Who gets to have what is produced?

Families and individuals, as well as businesspeople, charitable organizations, corporations, and governments all have had to answer these questions. The system created by making these decisions is called an *economy*. The study of how different groups answer the questions is called *economics*.

An economy is a country’s financial structure. It is the system that produces and distributes wealth in a country. The United States economy is a **free-enterprise system** because anyone is free to start a business.

**free-enterprise system**  
economic system in which businesses are privately owned and operate relatively free of government interference.

<sup>2</sup>Source of definitions: United States Small Business Administration (SBA): <http://www.sba.gov>. Accessed August 3, 2010.

You do not have to get permission from the government to start a business, although you will be expected to obey laws and regulations.

The free-market system is also called **capitalism** and is characterized by the following attributes:

- Individuals and companies may compete for their own economic gains,
- private property ownership and wealth are permissible, and
- free-market forces determine prices.

Cash or goods invested to generate income and wealth is called **capital**, and in a free-enterprise system anyone who can raise the necessary capital may start a business.

## Voluntary Exchange

The free-enterprise system is also sometimes referred to as a free-trade system because it is based on **voluntary exchange**. Voluntary exchange is a transaction between two parties who agree to trade money for a product or service. Each is eager to take advantage of what the trade offers. The parties agree to the exchange because each will benefit.

Let's say you have a contracting business, and your busy neighbors hire you to renovate their kitchen. You need money and are willing to use your skills and time to earn it. They want their kitchen renovated and are willing to give up money to get it done. You each have something the other wants, so you are willing to trade. Trading only takes place when both parties believe they will benefit. Robbery, in contrast, is an *involuntary* trade.

## Benefits and Challenges of Free Enterprise

The public benefits from living in a free-enterprise system because it discourages entrepreneurs who waste resources by driving them out of business. It encourages entrepreneurs who use resources efficiently to satisfy consumer needs by rewarding them with profit.

Today, trade barriers have fallen in most parts of the world. The North American Free Trade Agreement (NAFTA) of

## Global Impact...

### Free Trade

For much of recorded history, international trade was difficult and hazardous. To sell products in another country often required long and dangerous journeys overland or by ship. Many countries were closed to outside trade. Governments also used their power to give their own businesspeople a competitive advantage over those from other countries by establishing trade barriers, such as imposing taxes (tariffs) on foreign goods that made them very expensive. Governments could also enforce restrictions on how many imports or exports could cross their borders.

Today, trade barriers have fallen in most parts of the world. The North American Free Trade Agreement (NAFTA) of

### Performance Objective 2

Describe how free-enterprise economies work and how entrepreneurs fit into them.

**capitalism** the free-market system; characterized by individuals and companies competing for economic gains, private property ownership and wealth, and free-market forces determine prices.

**capital** money or property owned or used in business.

### voluntary exchange

a transaction between two parties who agree to trade money for a product or service.

1994 ended trade barriers between the United States, Mexico, and Canada. This turned the entire continent into a free-trade zone. The General Agreement on Tariffs and Trade (GATT) cut or eliminated tariffs between 117 countries. Where entrepreneurs are free to trade voluntarily to as large a market as possible, their ability to find someone to buy their goods or services increases, as well as their ability to meet consumer needs.

Meanwhile, the Internet has made it much easier for businesses to sell to customers all over the world. Shipping, too, has become much faster and less expensive.

Entrepreneurship is the process of starting a business. Entrepreneurs are individuals who have the enthusiasm and drive to start their own business.

Entrepreneurs are often seen as risk takers and innovators. They are often not afraid to take risks and pursue opportunities without fully understanding the potential outcomes.

Starting a small business can be a challenging endeavor, but it can also be very rewarding.

Small businesses are typically defined as those that have less than 500 employees and sell less than \$5 million worth of products or services in a year.

Entrepreneurship is a way to create wealth and opportunity for individuals and communities.

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Society also benefits because free enterprise encourages competition between entrepreneurs. Someone who can make cookies that taste as good as Mrs. Fields Original Cookies, and sells them at a lower price, will eventually attract Mrs. Fields' customers. This will force Mrs. Fields to lower prices to stay competitive. Consumers will benefit because they will get to buy the same-quality cookies at a lower price.

On the flip side, free enterprise has some disadvantages. If a company fails, the employees become unemployed. Owners who have invested their financial resources in businesses may take a loss. Other companies or individuals may depend upon the products and services of a failed business and thus may lose customers or suppliers.

## What Is a Small Business?

The public often thinks of business only in terms of “big” business—companies such as General Electric, ExxonMobil, Microsoft, McDonald’s, and Nike. A small business is defined by the U.S. Small Business Administration’s Office of Advocacy according to size. Companies having fewer than 500 employees and selling less than \$5 million worth of products or services in a year, depending upon the industry, are generally considered “small” according to SBA standards. So, even a leading local employer may be considered a small business.

Most of the world’s businesses are small businesses. A neighborhood restaurant or a clothing boutique is each an example of a small business. Surprisingly, the principles involved in running a large company, like Viacom, and a corner deli are the same. However, the operation of a small business is not the same as that of a large one. Most multimillion-dollar businesses in this country started out as small, entrepreneurial ventures. This is why entrepreneurship is often called the engine of our economy. It drives our economic creativity, giving rise to wealth and jobs, and improving our standard of living. It is no coincidence that the United States is one of the most entrepreneurial countries in the world and the richest.

## Why Be an Entrepreneur?

Entrepreneurs put a great deal of time and effort into launching their own businesses. While establishing a business, an entrepreneur may also pour all his or her money into it. He or she may not be able to buy new clothes or a fancy car, go on vacation, or spend much time with family, until the business becomes profitable and starts generating cash.

If so much work and sacrifice are involved, why be an entrepreneur? The entrepreneur is working for the following rewards:

1. **Control over Time.** Do you work better at midnight than at 8 a.m.? If you start your own business, you will have control over how you spend your time by the type of business it is. Are you the kind of person who would rather work really hard for two weeks nonstop and then take a break? If you are an entrepreneur, you can structure your schedule to make this possible. You can also choose to hire other people to perform tasks that you do not like to do or are not good at, so you can stay focused on what you do best. Bill Gates liked to spend his time designing software. He hired others to manage Microsoft’s operations and to market and sell its products. Many eBay entrepreneurs have carved out very flexible schedules for responding to orders, packaging, and shipping. Bricks-and-mortar retail stores, on the other hand, do not often afford such flexibility.

**BizFacts**

- There are 27.2 million businesses in the United States; approximately 99.9 percent of them are small companies with fewer than 500 employees.
- Small businesses in America have employed about half the country's private (non-government) workforce, hired 40 percent of high-tech workers, and created 60 to 80 percent of net new jobs annually over the last decade.
- Home-based businesses make up 52 percent and franchises compose 2 percent of small firms.
- Small businesses represent 99.7 percent of all companies with employees.
- Small firms constituted 97.3 percent of all identified exporters and produced 28.9 percent of the country's known export value in Fiscal Year (FY) 2006.

*Source:* Accessed from <http://www.sba.gov> on March 16, 2009.

2. **Fulfillment.** Successful entrepreneurs are passionate about their businesses. They are excited and fulfilled by their work. Entrepreneurs who are working to reach their full potential are rarely bored, because there is always plenty to do. If one facet of running the business is uninteresting to them, and they have the income to support it, they can hire someone else for that task.

Social entrepreneurs who want to contribute to societal improvement find ways to do this while also earning profits. Founders of not-for-profits create enterprises to address societal needs that are important to them. Other entrepreneurs start lifestyle businesses that allow them to earn money while following their passion. For example, avid pilots may operate aviation-oriented businesses in which they can fly often, such as specialty delivery companies or teaching. Art lovers may open galleries, create art-rental businesses, or operate special art tours.

3. **Creation/Ownership.** Entrepreneurship is a creative endeavor. Entrepreneurs put time into creating something that they expect will survive and become profitable. Entrepreneurs own the businesses that they create and the profits that those businesses earn. *Ownership* is the key to wealth. Your goal is to find a business that will create a continuing stream of earnings. Eventually, you may be able to sell that company for a multiple of those earnings. That is how entrepreneurs create wealth. Many entrepreneurs, such as Bill Gore, the inventor of GORE-TEX fabric, start their own business after becoming frustrated or disillusioned in other roles, or having ideas rejected by an employer.

4. **Control over Compensation.** Entrepreneurs choose how and when they are paid. As owner of your company, you can decide to:

- Pay yourself a **salary**—a fixed payment made at regular intervals, such as every week or every month. No matter how much time you put in, the salary remains the same.
- Pay yourself a **wage**—a fixed payment per hour.
- Take a share of the company's profit. As the owner you can pay yourself a portion of the business's profits. This kind of payment is called a **dividend**.
- Take a **commission** on every sale you make. A commission is a percentage of the value of a sale. If you decide to pay yourself 10 percent commission, and sell an item for \$120, your commission on the sale would be \$12.

**salary** fixed amount of money paid to an employee at regular intervals.

**wage** fixed payment per hour for work performed.

**dividend** each stockholder's portion of the profit-per-share paid out by a corporation.

**commission** a percentage of a sale paid to a salesperson or employee.

- 5. Control over Working Conditions.** As an entrepreneur, you can create a work environment that reflects your values. If you support recycling, you can make sure your company recycles. You will also evaluate your own performance. No one else has the power to fire you. If equality is vital, you may have an office with equal working spaces, no special privileges for managers, and few management layers.

Some of the greatest entrepreneurs in the world have dealt with problems growing up, such as extreme poverty, abuse, learning disabilities, and other issues. Sir Richard Branson, for example, had such severe dyslexia that he dropped out of high school. He became a successful entrepreneur, however, creating more than 200 companies—including Virgin Airlines, Virgin Galactic, and Virgin Records. The Virgin Group employs about 50,000 people in 29 countries with revenues of approximately \$20 billion.<sup>3</sup> Branson has a personal net worth of approximately \$4.4 billion, making him number 236 on the Forbes list of billionaires.<sup>4</sup> As an entrepreneur, he was able to create an environment in which he could succeed.

## The Desire to Make Money Is Not the Only Reason to Start a Business

Starting a business is an opportunity, and like any opportunity, it should be evaluated by taking a careful look at the costs and benefits it offers. One thing is for certain, though, *the desire to make money, alone, is not a good enough reason to start one's own business.*

The financial rewards of owning your own business may not kick in until you have put in years of hard work. The desire to make money may not be enough to keep you going through the difficult early period. Most successful companies have been founded by an entrepreneur with a powerful and motivating dream, balanced by a strong work ethic and dedication.

<sup>3</sup>Virgin Group, <http://www.virgin.com> (accessed March 15, 2009).

<sup>4</sup>"The World's Billionaires," *Forbes*, March 5, 2008, <http://www.forbes.com> (accessed March 14, 2009).



## Step into the Shoes...

### Balloon Distractions, Inc.: Putting a New Twist on Entertainment

When Benjamin Alexander was a student at Rowan University in Glassboro, New Jersey, he earned spending money by working as a balloon artist. Today, he operates

can recruit other artists, generally college students, and thereby become trainers. Artists book their restaurant locations online through the company's interactive Web site. These independent contractors work to earn tips plus bonuses.

Balloon Distractions uses entertainment skills Alexander developed during college, as well as selling skills learned in over 10 years as an automobile salesman and natural gas marketer. Alexander seized an opportunity and grew a business.

Balloon Distractions in Land O' Lakes, Florida, with approximately 200 independent contractors who are balloon artists. Alexander, who started the company in 2003, secures contracts with restaurants to provide balloon artists to amuse customers while they wait to be seated, or while they are seated and waiting for their food to be delivered.

Balloon Distractions provides its artists with a four-hour DVD training kit to teach them 25 shapes. The artists

Source: Balloon Distractions, Inc. Web site at <http://www.balloondistractions.com>, accessed on February 7, 2010.

Entrepreneurs have said that they are not in business for the money so often that it has become a cliché, but, like most clichés, it is based on a degree of truth.

## Definitions of Success—Monetary and Other

Today, the Millennial Generation (born between 1977 and 1995) has redefined success. It is more individualized than the traditional concept, and based upon factors beyond those of income and wealth. Business owners may start an enterprise to create a more environmentally friendly approach to a product or process, to provide jobs for a disadvantaged population, or to improve the mental or physical health of themselves or others. For these entrepreneurs, success might be measured by the ability to have an impact on the population they serve. Or, success may mean working to provide a lifestyle that permits a shortened work week or telecommuting. Recognition from peers and others could also be a goal. Financial success may be just one of many measures of achievement for an entrepreneur.

## Taking the Long View

Successful entrepreneurs know that it is important to begin with the end in mind, so that they can always have a vision of where they want the organization to be at their personal exit point, even before they make the first sale. The daily tactical decisions you make will be affected by what you hope to create in the short *and* long term, so that a clear vision is vital. Some questions to ask yourself include:

- Are you planning to be active in the business until retirement? At what age will you retire? Who will take over then? A family member? A new owner?
- Do you plan to grow the business to a certain size or level of maturity and then sell it? If so, what is the target level? Are you looking at an initial public offering or a small private sale? Would you stay with the business after it was sold?
- Would you want to stay active for a given number of years? Then what would you do?

Taking the long view also means considering personal satisfaction, including conformance with individual values and ethics. Entrepreneurs make hundreds of choices and decisions every day. When you make everyday decisions, they can conform with your values and ethics or you can violate them to meet a customer need, provide an expedient or cost-effective solution to an immediate problem, or the like. For your long-term wellness and the benefit of those around you, it will be critical to keep your core values in the forefront. Consider the legacy you want to leave behind for your successors.

## Benefits and Costs of Becoming an Entrepreneur

Even if you do have a clear vision that you believe will motivate you through the ups and downs of running a business, look closely at the costs and benefits of being an entrepreneur before you decide whether this is the life for you.

Benefits include:

- **Independence.** Business owners do not have to follow orders or observe working hours set by someone else.
- **Satisfaction.** Doing what you love to do, or turning a skill, hobby, or other interest into your own business can be highly satisfying.
- **Financial Reward.** Although income potential is generally capped for employees, entrepreneurs are limited only by their own imagination and tenacity. Entrepreneurs built most of our country's great fortunes. At the same time, many part-time, seasonal, and occasional entrepreneurs find ways to fund gaps in household income, pay for college, or support extraordinary expenses through entrepreneurship.
- **Self-Esteem.** Knowing you created something valuable can give you a strong sense of accomplishment. It can help you feel good about yourself.
- **Contribution to Society.** As a business owner, you decide how you can add value to your community and the wider world. The issues that you care about can be designed-in when you form your company.

Costs include:

- **Business Failure.** About one in five new businesses fails in the first eight years, although this is attributed to entrepreneurs not getting proper training.<sup>5</sup> Another third close because the entrepreneur becomes discouraged and gives up. Entrepreneurs risk losing not only their own money but also the financial investments of others.
- **Obstacles.** You will run into problems that you will have to solve by yourself. Your family and friends may actually discourage you, or not support your vision.
- **Loneliness.** It can be lonely and even a little scary to be completely responsible for the success or failure of your business.
- **Financial Insecurity.** You are not guaranteed a set salary or benefits. You may not always have enough money to pay yourself, particularly in the first 18 months of a new enterprise. You will have to set up and fund your own retirement fund.
- **Long Hours/Hard Work.** You will have to work long hours to get your business off the ground. Many entrepreneurs work six or even seven days a week, often for 12 hours or more per day. While you decide when to work, you may end up working many more hours as an entrepreneur than you would as an employee. Also, do not forget to examine the opportunities you will be giving up to start your own business. What are the next-best opportunities for your money and time? Some might include going to college or graduate school, or even working for someone else.
- **Strain on Personal Relationships.** Even with the strong support of family and friends, the inherent challenges of a small business can strain relationships to the breaking point.

Not everyone is cut out to be an entrepreneur. Entrepreneurs have to be able to tolerate a higher degree of risk and uncertainty than people who work steady jobs for established employers. With higher risk, however, comes the possibility of higher rewards.

<sup>5</sup>Linda Yu, "Self-Employment on Rise," *Metro* magazine, June 2004.

## Cost/Benefit Analysis

Using a comparison of benefits and costs to make a decision is called **cost/benefit analysis**. It is a helpful tool because people tend to make decisions based upon emotions, not intellect, to evaluate the pros and cons. Strong emotion may overwhelm you to the point where you see only the benefits and not the costs of an action (or vice versa).

Say you plan to buy a car. You might be overwhelmed by the idea of making such a large purchase, even if the benefits are greater than the costs. On the other hand, you might decide to buy a car at a cost that outweighs the benefits it will bring because you are temporarily blinded by a desire to own a really impressive vehicle. Making a list that includes the dollars and cents of the costs and benefits of your purchase is a concrete way to take the emotion out of the decision.

To turn an opportunity into a business you will have to invest both time and money. Before making this investment, think carefully about:

**Costs.** The money and time you will have to invest, as well as the opportunities you will give up, to operate the business.

**Benefits.** The money you will earn and the knowledge and experience you will gain.

## Opportunity Cost

Cost/benefit analysis is incomplete without considering **opportunity cost**. This is the cost of your “next-best investment.” Perhaps your goal is to become a composer who writes scores for movies. You get a full-time job at a local store for \$400 a week to support yourself, so you can write and record music in the evenings that you hope to sell to producers, agents, or film companies.

You find, however, that whenever a producer or agent wants to meet with you, you cannot get out of work to go. You realize that, even though you are making \$400 a week, you are missing some important opportunities. Perhaps it would be smarter to take a part-time job for \$300 a week that would leave your mornings free for meetings. The opportunity cost of the \$100 a week you will lose is made up for by the potential income from film-scoring jobs you are missing by not being free to see people in the business. If your first film-scoring job pays \$5,000, for example, you definitely would have made the right decision to earn \$100 a week less for a few months.

People often make decisions without considering the opportunity cost and then wonder why they are not happy with the outcome. Each time you make a decision about what to do with your time, energy, or money, think about the cost of the opportunities that you are giving up. Figure 1-1 presents a simple quiz that can help you decide whether you have what it takes to be an entrepreneur.

### cost/benefit analysis

a decision-making process in which the costs of taking an action are compared to the benefits.

**opportunity cost** the value of what must be given up in order to obtain something else.

## Avoiding Missteps

While experience is an excellent teacher, using knowledge, skills, and abilities to avoid errors, problems, and delays is much healthier. A savvy entrepreneur learns from the mistakes of others and appreciates the wisdom and experience of trusted advisors and mentors. Of course, it may be difficult to discern what advice is sound and what is likely to fuel further missteps.

Preparation and planning are keys to avoiding making mistakes. Thoughtful consideration of the entrepreneurship option is an excellent starting point. Thorough research and taking advantage of training and/or

**Figure 1-1** “Do you have what it takes?” quiz.

Take the following quiz to learn more about yourself and whether you have what it takes to be an entrepreneur. Circle the answer that best represents how you feel.

1. You are at a party and a friend tells you that the guy in the expensive-looking suit recently invested in another friend's business. What do you do?
  - a. Race over to him, introduce yourself, and tell him every detail of your business idea while asking if he would be interested in investing in it.
  - b. Ask your friend to introduce you. Once introduced, you hand the potential investor your business card and politely ask whether you might be able to call on him sometime to present your business plan.
  - c. Decide that it is probably not a good idea to bother the man at a party. After all, he is here to relax. Maybe you will run into him again somewhere else.
2. Your boss asks you to take charge of researching office supply stores and choosing the one that you think would be best for the company to use. What is your response?
  - a. Yes! Finally, a chance to show the boss what you are made of—plus, you will be able to spirit a few of the supplies away for your own business.
  - b. You are terrified; this is more responsibility than you really want. What if you make a mistake and cost the company money? You do not want to look bad.
  - c. You are excited. This is a good opportunity to impress your boss and also learn how to compare and negotiate with suppliers . . . something you will need to do for your own business.
3. You are already going to school full time when you are offered a part-time job that is in the same field as the business you want to start when you graduate next year. What do you do?
  - a. Take the job, after talking with your student advisor about how to juggle your schedule so it will fit, because you believe the experience and the contacts you will develop will be invaluable when you start your business.
  - b. Take the job. In fact, you ask for extra hours so you can finally start making some real money. Who needs sleep?
  - c. Turn down the job. School is hard enough without working, too. You do not want your grades to suffer.
4. You are offered a job as a survey-taker for a marketing firm. The job pays really well but will require you to talk to a great many people. What do you do?
  - a. Take the job. You like people and this job will be a good way to practice getting to know what consumers want.
  - b. Turn down the job. Just the thought of approaching strangers makes you queasy.
  - c. Take the job so you can conduct some market research of your own by also asking the people you survey what they think about your business idea.
5. Your last job paid well and was interesting, but it required you to put in long hours and sometimes work on the weekends. What was your response?
  - a. You put in the extra hours without complaint, but mainly because you felt that the rewards were worth it.
  - b. You went a little overboard and worked yourself into a state of exhaustion; moderation is not your strong suit.
  - c. You quit. You are strictly a nine-to-five person. Work is definitely not your life!
6. You are such a good guitar player that friends keep offering to pay for you to give them lessons. What is your response?
  - a. You spend some money to run a six-week advertisement in the local paper, announcing that you are now available to teach at the same rate that established teachers in the area charge.
  - b. You start teaching a few friends to see how it goes. You ask them what they are willing to pay and what they want to learn.
  - c. You give a few friends some lessons but refuse to take any money.
7. Your best friend has started a business designing Web sites. He needs help because the business is really growing. He offers to make you a partner in the business even though you are computer-illiterate. What is your response?
  - a. You jump in, figuring that you will learn the ropes soon enough.
  - b. You ask your friend to keep the partnership offer open but first to recommend a class you can take to get your skills up to speed.
  - c. You pass. You do not see how you can work in a business you know nothing about.

#### **Analysis of the “Do You Have What It Takes?” Quiz**

##### **Scoring**

1. a = 2	b = 1	c = 0
2. a = 2	b = 0	c = 1
3. a = 1	b = 2	c = 0
4. a = 1	b = 0	c = 2
5. a = 1	b = 2	c = 0
6. a = 2	b = 1	c = 0
7. a = 2	b = 1	c = 0

**Figure 1-1** “Do you have what it takes?” quiz.

**12 Points or More:** You are a natural risk-taker and can handle a lot of stress. These are important characteristics for an entrepreneur to have to be successful. You are willing to work hard but have a tendency to throw caution to the wind a little too easily. Save yourself from that tendency by using cost/benefit analysis to carefully evaluate your business (and personal!) decisions. In your enthusiasm, do not forget to look at the opportunity costs of any decision you make.

**6 to 12 Points:** You strike an excellent balance between being a risk-taker and someone who carefully evaluates decisions. An entrepreneur needs to be both. You are also not overly motivated by the desire to make money. You understand that a successful business requires hard work and sacrifice before you can reap the rewards. To make sure that you are applying your natural drive and discipline to the best possible business opportunity, use the cost/benefit analysis to evaluate the different businesses you are interested in starting.

**6 Points or Fewer:** You are a little too cautious for an entrepreneur, but that will probably change as you learn more about how to run a business. You are concerned with financial security and may not be eager to put in the long hours required to get a business off the ground. This does not mean that you can not succeed as an entrepreneur; just make sure that whatever business you decide to start is the business of your dreams, so that you will be motivated to make it a success. Use cost/benefit analysis to evaluate your business opportunities. Choose a business that you believe has the best shot at providing you with both the financial security and the motivation you require.

Technical assistance to bridge gaps in your preparation can make a world of difference.

Two of the best resources for keeping on track are mentors and advisors. Finding a committed business mentor with industry-specific knowledge and experience, broad general business experience, or both, is a worthwhile endeavor. If you can find a successful entrepreneur in your field, perhaps outside of your geographic area, having him/her as a mentor may prove invaluable. Many successful entrepreneurs will carve out time for promising newcomers. Unfortunately, becoming a mentor may be more of a commitment than your identified entrepreneur is willing or able to make. Perhaps he or she will become an advisor instead.

In addition to your paid professional advisors, such as attorneys and accountants, individual advisors or an advisory board can be the difference between success and failure. Even if you are forming a venture with a full slate of experienced technical and managerial professionals, the guidance of a carefully composed advisory board can provide valuable counsel and connections. Such a board might meet only once or twice a year to serve as a sounding board, share experiences, and help you avoid mistakes. During the times between meetings, advisors may also offer substantial assistance.

Of course, taking advantage of available courses in entrepreneurship, whether brief workshops, individual college courses, an entrepreneurial certificate program, or a degree program, can give you considerable advantage. The opportunity to learn from the experiences of others and to systematically explore entrepreneurship options and build skills is invaluable.

A well-prepared entrepreneur is more likely to stay on the path to success.

## Entrepreneurial Options

Entrepreneurship extends beyond the traditional views of for-profit enterprises that are most commonly associated with it. There are many variations on entrepreneurship, and the opportunities are virtually limitless. Entrepreneurship may include for-profit enterprises that support the missions of not-for-profit organizations, businesses designed for social impact, and ventures that are environmentally oriented.

**social entrepreneurship**

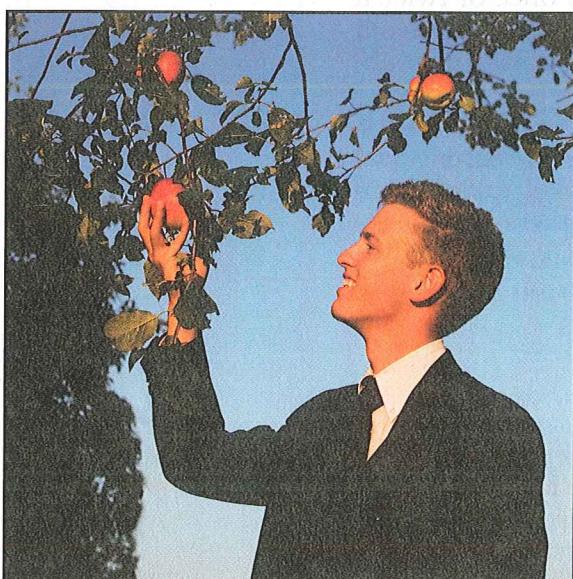
a for-profit enterprise that has the dual goals of achieving profitability and attaining social returns.

**venture philanthropy**

a subset or segment of social entrepreneurship wherein financial and human capital is invested in not-for-profits by individuals and for-profit enterprises with the intention of generating social rather than financial returns on their investments.

**green entrepreneurship**

enterprise activities that avoid harm to the environment or help to protect it in some way.



*Organically grown produce*

**Social entrepreneurship** has multiple definitions and forms, but in general it is commonly thought of as a for-profit enterprise that has the dual goals of achieving profitability and attaining beneficial social returns. Another view is that of taking an entrepreneurial perspective toward social problems.<sup>6</sup> Gregory Dees has created the following definition:

"Social entrepreneurs play the role of change agents in the social sector by:

- adopting a mission to create and sustain social value (not just private value),
- recognizing and relentlessly pursuing new opportunities to serve that mission,
- engaging in a process of continuous innovation, adaptation, and learning,
- acting boldly without being limited by resources currently in hand, and
- exhibiting heightened accountability to the constituencies served and for the outcomes created."

In this view, social entrepreneurship is less about profit than it is about social impact.

In addition, **venture philanthropy** is a subset or segment of social entrepreneurship. Financial and human capital is invested in not-for-profits by individuals and for-profit enterprises with the intention of generating social rather than financial returns. In some cases, venture philanthropy may involve the investment of capital in the for-profit, commercial part of a not-for-profit. In others, it may mean investing in not-for-profits directly, to encourage entrepreneurial approaches to achieve social impact.

**Green entrepreneurship** is another form of social entrepreneurship and can be defined as: "Enterprise activities that avoid harm to the environment or help to protect the environment in some way."<sup>7</sup> TerraCycle is an excellent example of green entrepreneurship. According to the Corporation for Enterprise Development (CFED), green entrepreneurship can

- create jobs and offer entrepreneurship opportunities;
- increase energy efficiency, thus conserving natural resources and saving money;
- decrease harm to workers' health;
- enable businesses to tap into new sources of local, state, and federal funding;
- take advantage of consumer preference for environmentally friendly goods; and
- preserve limited natural assets on which businesses and communities depend for business and quality of life.

Each of these alternative approaches offers opportunities for innovation and growth for the right entrepreneur.

<sup>6</sup>Gregory Dees, "The Meaning of 'Social Entrepreneurship,'" May 30, 2001, [http://www.fuqua.duke.edu/centers/case/documents/dees\\_SE.pdf](http://www.fuqua.duke.edu/centers/case/documents/dees_SE.pdf) (accessed December 2007). Used by permission.

<sup>7</sup>Green Entrepreneurship. Corporation for Enterprise Development: Effective State Policy and Practice, Volume 5, Number 2, April 2004, <http://www.cfed.org>.

## How Do Entrepreneurs Find Opportunities to Start New Businesses?

In the twentieth century, Joseph Schumpeter expanded on Say's definition of entrepreneurship by adding that entrepreneurs create value "by exploiting an invention or, more generally, an untried technological possibility for producing a new commodity or producing an old one in a new way, by opening up a new source of supply of materials or a new outlet for products, by reorganizing an industry and so on."<sup>8</sup> This view emphasizes innovation as the key to entrepreneurship. Management expert Peter Drucker simplified this view to the essential core of creating a new business, taking on risk, and persevering in light of uncertainty.<sup>9</sup>

Schumpeter's definition describes five basic ways that entrepreneurs find opportunities to create new businesses:

1. Use a new technology to produce a new product.
2. Use an existing technology to produce a new product.
3. Use an existing technology to produce an old product in a new way.
4. Find a new source of resources (that might enable the entrepreneur to produce a product more cheaply).
5. Develop a new market for an existing product.

### Performance Objective 3

Find and evaluate opportunities to start your own business.

## Entrepreneurs Creatively Exploit Changes in Our World

Today's economists and business experts have defined entrepreneurship even more sharply. Drucker pointed out that, for a business to be considered entrepreneurial, it should exploit changes in the world. This is in alignment with Schumpeter's definition of entrepreneurship but explicitly takes it a step further . . . to take advantage of circumstances. These changes can be technological, like the explosion in computer technology that led Bill Gates and Paul Allen to start Microsoft, or cultural, like the collapse of Communism, which led to a great many new business opportunities in Eastern Europe.

Nothing changes faster than technology, which is defined as science that has been applied to industry or commerce. Not many years ago, there were no bar codes, no electronic scanners, and hardly anyone used e-mail or mobile phones. Today, even the smallest of organizations needs to use

<sup>8</sup>Joseph A. Schumpeter, *Capitalism, Socialism and Democracy* (New York: Harper & Row, 1942).

<sup>9</sup>Peter Drucker, *Innovation and Entrepreneurship: Practice and Principles* (New York: Harper Collins, 1985).

## How Do Entrepreneurs Create Business Ideas?

1. **They listen.** By listening to others, entrepreneurs get ideas about improving a business or creating a new one. Create one business idea by listening. Describe how you got the idea.
2. **They observe.** By constantly keeping their eyes open, entrepreneurs get ideas about how to help society, about businesses to start, and about what customers need. Create a business idea by observing. Describe how you got the idea.
3. **They think.** When entrepreneurs analyze a problem, they think about solutions. What product or service could solve that problem? Create a business idea by thinking about a problem. Describe how you got the idea.

current technologies to be competitive. Smart entrepreneurs multiply their efficiency by taking advantage of the latest breakthroughs in business technology. To learn about what's new in technology, read current business and trade magazines and visit Web sites such as:

- The Business Technology Network, <http://www.techweb.com>.
- BusinessWeek Technology News, <http://www.businessweek.com>/technology.

Peter Drucker defined an entrepreneur as someone who "always searches for change, responds to it, and exploits it as an opportunity." Entrepreneurs are always on the lookout for ways to create opportunities from change.

## Where Others See Problems, Entrepreneurs Recognize Opportunities

Here is a simple definition of an entrepreneur that captures the essentials: An entrepreneur recognizes opportunities where other people see only problems.

Many famous companies were started because an entrepreneur turned a problem into a successful business. An entrepreneur recognized that the problem was actually an opportunity. Where there are dissatisfied consumers, there are definitely opportunities for entrepreneurs.

Anita Roddick was an excellent example of an entrepreneur who started off as a dissatisfied consumer. She started The Body Shop International because she was tired of paying for unnecessary perfume and fancy packaging when she bought makeup, and she thought other women might feel the same way. Harlan Beverly is another problem solver. He realized that online gamers are frustrated by the lag time on response while playing their favorite online games and created products to address the problem. His BigFoot Networks has become an industry leader.

## Train Your Mind to Recognize Business Opportunities

The first step in becoming an entrepreneur is to train your mind to recognize business opportunities. The next step is to let your creativity fly. Roddick suggested that you develop your entrepreneurial instincts by asking yourself such questions as

- What frustrates me the most when I try to buy something?
- What product or service would really make my life better?
- What makes me annoyed or angry?
- What product or service would take away my aggravation?

### BizFacts

Entrepreneurship has proven to be an effective way for minorities and women to enter the business world.

- More than 4 million businesses were minority-owned in 2002, employing 4.8 million people and generating \$694 billion in revenues.
- There were more than 9.2 million non-farm businesses owned by women (or co-owned equally with men), accounting for 40 percent of all U.S. companies.

*Source:* Accessed from <http://www.sba.gov> on March 16, 2009.

## Entrepreneurs Use Their Imaginations

Businesses are also formed when entrepreneurs not only fume about products or services that annoy them but fantasize about products or services they would love to have in their lives. Jump-start your imagination by asking yourself such questions as

- What is the one thing I would love to have more than anything else?
- What would it look like? What would it taste like?
- What would it do?
- What innovative product or service idea have I been mulling over in my mind?
- What problem have I encountered in everyday life and thought: “There has to be a better way to do this?”

Consider posing these questions to friends and family members as well. You might hear about an opportunity you had not yet recognized.

## An Idea Is Not Necessarily an Opportunity

Not every business idea you may have or invention you may explore is an opportunity. In fact, most ideas are not viable business possibilities. An opportunity has a unique characteristic that distinguishes it from an ordinary idea. An opportunity is an idea that is based on what consumers need or want and are willing to buy sufficiently often at a high enough price to sustain a business. A successful business sells products or services that customers need, at prices they are willing to pay. Many a small business has failed because the entrepreneur did not understand this. It is critical that the idea “has legs” for it to go on to success.

In addition, according to Jeffry Timmons, “An opportunity has the qualities of being attractive, durable, and timely and is anchored in a product or service which creates or adds value for its buyer or end user.”<sup>10</sup>



<sup>10</sup>New Venture Creation: Entrepreneurship for the 21st Century, 5th ed. (New York: Irwin/McGraw-Hill, 1999), p. 7.

## Entrepreneurial Wisdom

A useful way to evaluate a business idea is to look at its Strengths, Weaknesses, Opportunities, and Threats (SWOT). This is called **SWOT Analysis**.

- **Strengths**—All the capabilities and positive points that the entrepreneur has, from experience to contacts. These are internal to the organization.
- **Weaknesses**—All of the negatives that the entrepreneur faces, such as lack of capital or training, or failure to set

up a workable accounting system. These are internal to the organization.

- **Opportunities**—Any positive external event or circumstance (including lucky breaks) that can help the entrepreneur get ahead of the competition.
- **Threats**—Any external factor, event, or circumstance that can harm the business, such as competitors, legal issues, or declining economies.

Timmons defines a business opportunity as an idea, plus these four characteristics:

1. It is attractive to customers.
2. It will work in your business environment.
3. It can be executed in the window of opportunity that exists.
4. You have the resources and skills to create the business, or you know someone who does and who might want to form the business with you.

The window of opportunity is the length of time you have to get your business idea to your market. You might have a great idea, but if several other competitors have it, too, and have already brought it to the marketplace, that window of opportunity has been closed.

Remember, not every idea is an opportunity. For an idea to be an opportunity, it must lead to the development of a product or service that is of value to the customer.

## Opportunity Is Situational

A problem is one example of an opportunity that entrepreneurs need to be able to recognize. A changing situation or trend is another. Opportunity is *situational*, meaning it is dependent on variable circumstances. There are no rules about when or where an opportunity might appear. Change and flux create opportunities.

Think about recent changes in computer technology. In the early 1990s, the conventional wisdom was that only the biggest telecommunications companies were going to be in a position to exploit the Internet and all the opportunities it had to offer. How could entrepreneurs compete with established, resource-loaded companies? The opposite has been true, however. Entrepreneurs have penetrated and, indeed, dominated the market for Internet-based services. Think of AOL, Google, and Yahoo! Each one is an entrepreneurial venture that left the telecom giants scrambling to catch up.

As Timmons has pointed out, it can take a huge corporation (think dinosaur) over six years to develop and implement a new business strategy. Entrepreneurs, in contrast, can dart in and out of the market like roadrunners. Successful entrepreneurs can “turn on a dime rather than a dollar bill.”

## The Five Roots of Opportunity in the Marketplace

There are “five roots of opportunity” that entrepreneurs can exploit.<sup>11</sup> Notice how similar these are to Schumpeter’s definition of entrepreneurship.

1. **Problems** that your business can solve.
2. **Changes** in laws, situations, or trends.
3. **Inventions** of totally new products or services.
4. **Competition** If you can find a way to beat the competition on price, location, quality, reputation, reliability, or speed, you can create a very successful business with an existing product or service.
5. **Technological Advances** Scientists may invent new technology, but entrepreneurs figure out how to use and sell it.

<sup>11</sup>Adapted from the *Master Curriculum Guide: Economics and Entrepreneurship*, John Clow, ed. (New York: Joint Council on Economic Education, 1991).

## Step into the Shoes...

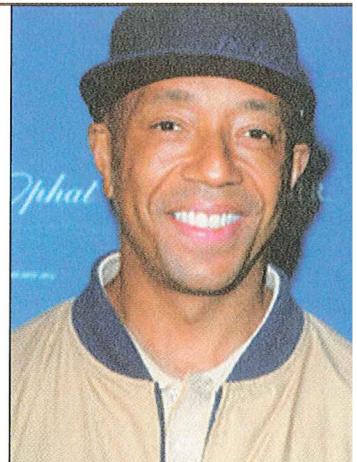
### Russell Simmons Makes Rap Happen

In the late 1980s, Russell Simmons was promoting rap concerts at the City University of New York. At the time, rap was considered a passing fad, but Simmons really loved it. Even though most record executives thought rap would be over in a year or two, Simmons truly believed it was a business opportunity. He formed Def Jam Records with fellow student Rick Rubin for \$5,000. Within a year, they produced hit records by Run DMC and LL Cool J, and Simmons became a multimedia mogul.

Simmons took a chance on this opportunity because he felt that, if you personally know 10 people who are eager to buy your product or service, 10 million would be willing to buy it if they knew about it. Luckily, he was right about rap's popular potential, but he could have been wrong. That can be a problem with perceived opportunities—you may be passionate about something but there may not be enough consumer

interest to sustain an actual business venture.

Simmons loved rap and hoped that other people would, too. That was the internal factor—he had the passion to sustain himself as he worked 24/7 to make his dream come true. As it turned out, music fans were a little bored with rock at that time, and looking for a fresh sound. Rap filled the bill. This was an external opportunity that happened to coincide with Simmons's internal commitment.



### Integrating Internal and External Opportunities

It is helpful not only to be aware of the “five roots of opportunity” in the marketplace, but to think also about how we perceive opportunities ourselves. Opportunities fall into two classes: internal and external. An internal opportunity is one that comes from inside you—from a personal hobby, interest, or even a passion—or your organization, which could come in the form of the resolution of a problem, such as creating a viable product from scrap material, or the potential for a new product line.

An external opportunity, in contrast, is generated by a noticeable outside circumstance. External opportunities are conditions you notice that make you say to yourself, “Hey! I could start a great business from that!” For example, you see that people in your neighborhood are complaining about the lack of available day care, so you start a day care center. But what if you find out very quickly that two-year-olds get on your nerves? That can be a major drawback for external opportunities. Your idea may fill a market need, but you may not have the skills or interest to make it a successful business.

The best business opportunities often combine both internal and external factors. Ideally, a business that you are passionate about fills a huge need in the marketplace.

### Establishing Strategies

Business success hinges upon the creation and application of profitable strategies to the work at hand. A **strategy** is a plan for how a business intends to go about its own performance and outdo that of its competition. Michael Porter created a “strategy framework” in his book, *Competitive Advantage*, which has held up well. This framework delineates cost leadership and differentiation as low-cost and product-uniqueness strategies. It also layers in the concept of focus strategies, which work in narrow market segments rather than broad markets. The illustration in **Figure 1-2** shows how each of Porter’s Generic Strategies relates to the other.

**strategy** a plan for how an organization or individual plans to go about its own performance and outdo that of its competitors.

**Figure 1-2 Porter's Generic Strategies.**

Scope of Target	Strategic Advantage	
<b>Market</b>	<b>Product Uniqueness</b>	<b>Low Cost</b>
<b>Industry-Wide (Broad)</b>	Differentiation Strategy	Cost Leadership Strategy
<b>Market Segment (Narrow)</b>	Focus Strategy (Differentiation)	Focus Strategy (Low Cost)

Adapted from Michael Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors* (Free Press, 1998).

A firm using a product-uniqueness strategy bases its competitive advantage on its ability to differentiate the firm's products and/or services from others in its competitive market space. Such factors as quality, availability, customer service, and the like, are critical to differentiation, as will be discussed in greater detail in the marketing chapters of this text.

If you choose to emphasize a low-cost approach, you will be using a cost-leadership strategy. This means that you are finding ways to reduce the costs of operations and management sufficiently to be able to "undercut" the pricing of your competition and are able to sustain a price advantage.

Another component of the Porter framework is that of a focus strategy. This line of attack narrows in and creates a laser-like focus on a particular market segment or group. Rather than strategically targeting an entire industry, you are finding a particular niche or subset of the customer base and focusing your marketing efforts on that niche. If you are able to find a sufficiently large niche to sustain your business, you can set the company apart from the competition, and can maintain the advantage. A focus strategy can work with differentiation and cost leadership.

## Paths to Small Business Ownership

Not all business owners start their ventures from the ground up. Although the emphasis of this book is on starting and growing your own enterprise, the paths to business ownership are varied. You could buy an existing company, secure franchise rights, license or purchase critical technology or methods, inherit a company, or be hired as a manager.<sup>12</sup> There are pros and cons to each approach and it is worthwhile to give thought to each option. Note the possibilities in **Exhibit 1-1**.

### Securing Franchise Rights

"A **franchise** is a legal and commercial relationship between the owner of a trademark, service mark, trade name or advertising symbol and an individual or group seeking to use that identification in a business."<sup>13</sup> For many people who want to own and operate a business, it is worthwhile to consider franchising as a path to business ownership. See Chapter 2 for a discussion of franchising as an entrepreneurial opportunity.

<sup>12</sup>Jerome A. Katz and Richard P. Green, *Entrepreneurial Small Business* (New York: McGraw-Hill/Irwin, 2008).

<sup>13</sup>U.S. Small Business Administration Workshop, "Is Franchising for Me?" [http://www.sba.gov/idc/groups/public/documents/sba\\_homepage/serv\\_sbpforsme.pdf](http://www.sba.gov/idc/groups/public/documents/sba_homepage/serv_sbpforsme.pdf) (accessed December 2007).

**Exhibit 1-1** Selected business entry options.

	<b>Start a Business</b>	<b>Buy an Existing Business</b>	<b>Secure a Franchise or License</b>	<b>License Technology</b>
Customers	None	Established	None—but may have name recognition	None
Location	Needed	In place	Assistance possible	Needed
Management Control	Owner	Owner	Owner within terms of license	Owner within terms of license
Operational Control	Owner	Owner	Owner within terms of license	Owner
Marketing	Needed	In place (+/-)	Assistance possible. Rules absolutely.	Needed
Reputation	None	In place (+/-)	Should be. If not, why license?	Possible
Royalties/Fees	Not usual	Maybe	Ongoing	Likely
Financing	Needed	Prior owner may provide	Assistance possible	Needed
Disclosures	None	Buyer beware	UFOC and contracts	Agreement

## Buying an Existing Business

A business purchase, or **acquisition**, might be a good way to jump-start your entry into small business ownership. There is both an art and a science to buying an existing business.

The challenge is to do a complete, in-depth analysis of the opportunity, just as you would for a startup, with the added dimension of having an existing history, whether for better or for worse. Be wary of owners whose business seems to be too good to be true or who are overly eager to sell. Be thorough, whether you are buying an entire firm, a customer list, some or all assets, or taking on some or all debts. Done well, buying a business can be the starting point for success. Done poorly, buying a business can be more challenging and problematic than starting a new venture. See Chapter 3 for a more in-depth discussion.

## Licensing Technology

One way to potentially shorten the product-development cycle and to access innovative technology would be to identify and *license* technology, that is, to enter into a contract to use it without purchasing the rights to own it. Whether you acquire such rights through a university, state economic development office, federal agency such as NASA, or an individual scientist/inventor, you can create a business based on technology transfer. Or, you may find that it makes more sense to purchase it outright or over time.

The MBA team of Bruce Black and Matt Ferris from the University of Georgia developed a business plan that garnered numerous competitive awards for the KidSmart Vocal Smoke Detector, which was created by an inventor and brought to market by them. The product is now available in major retail stores and on the Internet through the successor company, Signal One.

Before securing franchise rights, purchasing a business, or licensing technology, be certain to do your research thoroughly to understand what you are and are not buying and what your ongoing obligations (financial, operational, legal, and reporting) will be. Because these transactions are

**acquisition** a business purchase.

complex and can have significant financial and personal implications for you, it is important to invest in qualified legal and financial counsel before signing any agreements of this kind.

## Do Not Take Unfair Advantage of Someone Else's Creativity

You would be upset if someone made money from your invention or artistic creation, so resist the urge to base your business on someone else's creative work. Not only is it unethical, it is against the law. Be sure that any business you start respects the intellectual property of others.

- Do not sell counterfeit knockoffs of popular brands.
- Do not take graphics, music, or content from the Web without permission and/or payment.
- Always know the source of the goods you buy from suppliers to avoid the risk of receiving stolen property.

## The Many Faces of Entrepreneurship

Entrepreneurs are as diverse as the composition of the economy. They are of all ethnicities, races, religions, and every socioeconomic status. They enter into self-employment for a wide range of reasons and choose to continue as entrepreneurs or return to outside employment for just as many. There are women and minority entrepreneurs and young entrepreneurs in record numbers. Continuing an American tradition, there are also refugee and immigrant entrepreneurs.

This diverse and ever-changing pool of entrepreneurs is not filled with a single view of entrepreneurial success. Rather, the types of businesses formed are many, as well. In addition to full-time enterprises founded to maximize growth and wealth, there are firms that are started as part-time and small enterprises (microenterprises), "gazelles," artisanal and opportunistic enterprises, and others.

### Gazelles

The classic entrepreneurial story is that of a single inventor or pair of inventors that develop a new, innovative technology or product in a garage, basement, or dormitory, lift themselves up by their bootstraps into a wildly successful business venture in virtually no time, take it public, and become incredibly wealthy in the process. This entrepreneurial stereotype is a description of a high-potential venture and its founders. **Gazelles** are companies that achieve an annual growth rate of 20 percent or greater, typically measured in the growth of sales revenue.

They tend to be the exception rather than the rule for entrepreneurial ventures, but are a significant type of firm. Gazelles are financed by a combination of found resources with significant outside assistance. They rely heavily upon external financial support and counsel.

### Microenterprises

Most businesses are founded as **microenterprises**, which are defined as firms with five or fewer employees, initial capitalization requirements of under \$35,000, and have the regular operational involvement of the owner. In fact, over 60 percent of all U.S. firms have four or fewer employees, according to the U.S. Small Business Administration.<sup>14</sup> The Association for

**gazelle** a company that achieves an annual growth rate of 20 percent or greater, typically measured by the increase of sales revenue.

**microenterprise** a firm with five or fewer employees, initial capitalization requirements of under \$35,000, and the regular operational involvement of the owner.

<sup>14</sup>U.S. Small Business Administration, Office of Advocacy, 2006.

Enterprise Opportunity (AEO) estimates that the more than 24 million microenterprises in the United States account for 87 percent of all businesses and 18 percent of all private employment.<sup>15</sup>

Microenterprises are founded for a variety of reasons and are often more fluid than other types of businesses. These firms may be started to provide full-time or part-time employment for their owners. They may be intended as long-term enterprises and may or may not have the goal of growing larger. Or, they may be planned as only temporary ventures to provide income during periods of unemployment, or to supplement household finances for a particular purpose. **Lifestyle businesses** are microenterprises that permit their owners to follow a desired pattern of living, such as supporting college costs, or taking vacations. On the other hand, a microenterprise could make the difference between a family living in poverty and achieving economic stability.

### Mainstream Small Firms

These constitute the bulk of the small businesses in the public perception, in the press, and in community visibility. They are those that provide, or have the potential to provide, substantial profits to their owners. Mainstream small firms can be operated by founder-entrepreneurs, subsequent generations of family members, successor owners, or franchisees. They create many of the jobs noted by the U.S. Small Business Administration and employ the majority of American workers. Unlike many microenterprises, they are established with continuity and permanent wealth building in mind, and are more often registered with local, state, and federal agencies.

#### **lifestyle business**

a microenterprise that permits its owners to follow a desired pattern of living, such as supporting college costs, or taking vacations.

## Making the Business Work Personally and Professionally

What makes a business work is not solely profitability and cash flow, although they are of course necessary. Each entrepreneur has his or her own goals and objectives for the business. As an entrepreneur, it will be up to you to determine how you want your business to be, and to make it happen.

### A Business Must Make a Profit to Stay in Business

No matter how big or small, a business must make a **profit**, that is, a positive gain from operations after all expenses are subtracted. Most businesses do lose money initially because entrepreneurs have to spend money to set up operations and advertise to attract customers. If the business cannot make a profit and generate cash, eventually the entrepreneur will be unable to pay the bills and will have to close.

Closing a business is nothing to be ashamed of, if you operate ethically and learn from the experience. In fact, most successful entrepreneurs open and close more than one business during their lives. If your venture is not making a profit after you have gotten it up and running, that is a signal that you may be in the wrong business. Closing it may be the smartest decision.

An entrepreneur may change businesses many times over a lifetime in response to changing competition and consumer needs.

**profit** amount of money remaining after all costs are deducted from the income of a business.

<sup>15</sup>Association for Enterprise Opportunity, <http://www.microenterpriseworks.org> (accessed March 16, 2009).

**Performance Objective 4**

Explain how profit works as a signal to the entrepreneur.

**trade-off** the act of giving up one thing for another.

**Profit Is the Sign That the Entrepreneur Is Adding Value**

Profit is the sign that an entrepreneur has added value to the resources he or she is using. Debbi Fields added value to scarce resources by creating something that people were willing to buy for a price that gave her a profit. In contrast, not making a profit is a sign that the entrepreneur is not using resources very well and is not adding value to them.

**Profit Results from the Entrepreneur's Choices**

An entrepreneur's choices directly affect how much profit the business makes. For example, suppose, like Debbi Fields, you have a business selling homemade cookies. You might decide one week to buy margarine instead of butter because it is cheaper, even though the cookies may not taste as good made with margarine. This type of choice is called a **trade-off**. You are giving up one thing (taste) for another (money).

If your customers do not notice the change and continue to buy your cookies, you have made a good choice. You have conserved a resource (money) and increased your profit by lowering your costs. The increase in profit confirms that you have made the right choice.

If your customers notice the change and stop buying your cookies, your profit will decrease. The decrease in profit signals that you have made a bad choice. Next week you should probably go back to butter. The profit signal taught you that your customers were dissatisfied and the trade-off was not worth it. Every choice an entrepreneur makes is a trade-off.

**Seven Rules for Building a Successful Business**

Russell Simmons and Rick Rubin were successful in creating Def Jam because they instinctively applied the seven basic rules of building a successful business:

1. **Recognize an Opportunity.** Simmons believed that rap music was an untapped business opportunity.
2. **Evaluate It with Critical Thinking.** He tested his idea by promoting concerts and observing consumer reaction.

**Entrepreneurial Wisdom...****Build Your Brain**

Becoming a successful entrepreneur is all about making connections, those "Aha!" moments when you realize what your business opportunity is, or when you figure out how to do something better than the competition. Research indicates that mental exercise will help your brain become better at making such connections. Even the most erudite scientists recognize the value of activities that encourage brain cells to make new connections. Robotics engineer Hugo de Garis, who has worked on such projects as building an artificial brain for an artificial cat, plays classical piano every day before he sits down at the computer. "This helps to build my own brain," he told the *New York Times*.<sup>16</sup> Arnold

Scheibel, head of the University of California–Los Angeles Brain Research Institute, suggests the following brain-builders:

- Solve puzzles.
- Play a musical instrument.
- Fix something; learn to repair cars or electrical equipment.
- Create art; write poetry, paint, or sculpt.
- Dance.
- Make friends with people who like to have interesting conversations.

<sup>16</sup>Nicholas D. Kristof, "Robokitty," *New York Times*, August 1, 1999.

3. **Build a Team.** Simmons formed a partnership with Rubin.
4. **Write.** Simmons and Rubin created a realistic business plan.
5. **Gather Resources.** Simmons and Rubin pooled their \$5,000.
6. **Decide Ownership.** Simmons and Rubin formed a legal partnership.
7. **Create Wealth.**

## The Team Approach

Let's take a closer look at step 3: Build a Team. Alone, neither Simmons nor Rubin had enough money to launch a record label, but together they were able to do it. Their business was also helped by the fact that each knew different artists and had different contacts in the recording industry.

Everyone you know is a potential business-formation opportunity. Your friends or family members may have skills, equipment, or contacts that would make them valuable business partners. Perhaps you very much want to start a Web-site-design business because you know of companies in your community that want to put up Web sites. You are a graphic artist but you do not know how to use Web-site development programs. If you have a friend who has that knowledge, you might start a business together. Or maybe you would like to start a DJ business, but you only have one turntable or laptop computer. If you form the business with a friend, you can pool equipment. (When forming a business team, organize the venture so that everyone involved shares in the ownership and profits. People work much better when they are working for themselves.) Just be careful of jumping into business relationships with undue haste.

Now carry this idea a step further. Every person you meet is a potential contact for your business, just as you may be a valuable contact for theirs. Thinking this way will encourage you to *network*, or exchange valuable information and contacts with other businesspeople. Keep your business cards on you at all times and truly view every individual you meet as an opportunity for your business. Remember, though, that networking is a two-way street. See how you can help those that you meet rather than focusing only on how they can help you. The results can be nothing short of amazing.

## Chapter Summary

Now that you have studied this chapter, you can do the following:

1. Explain what entrepreneurs do.
  - Entrepreneurs start their own businesses and work for themselves.
  - Entrepreneurs recognize opportunities to start businesses that other people may not have noticed.
  - Entrepreneurs shift economic resources from an area of lower productivity and into an area of higher productivity and greater yield. By doing this, they add value to scarce resources.
2. Describe how free-enterprise economies work and how entrepreneurs fit into them.
  - The free-enterprise system is based on voluntary exchange. Voluntary exchange is a trade between two parties who agree to trade money for a product or service. Both parties agree to the exchange because each benefits from the trade.
  - The free-enterprise system encourages entrepreneurs who use resources efficiently to satisfy consumer needs by rewarding them with profit.

3. Find and evaluate opportunities to start your own business.
  - The Five Roots of Opportunity are
    1. problems that your business can solve;
    2. changes in laws, situations, or trends;
    3. inventions of totally new products or services;
    4. *competition* (If you can find a way to beat the competition on price, location, quality, reputation, reliability, or speed, you can create a very successful business with an existing product or service.); and
    5. *technological advances*. (Scientists may invent new technology, but entrepreneurs figure out how to sell it.)
  - 4. Explain how profit works as a signal to the entrepreneur.
    - Profit is the sign that an entrepreneur has added value to the scarce resources he or she is using.
    - Not making a profit is a sign that the entrepreneur is not using resources well and is not adding value to them.
  - 5. A business opportunity is an idea plus these three characteristics:
    - It is attractive to customers.
    - It will work in your business environment.
    - It can be executed in the window of opportunity that exists.
  - 6. Use cost/benefit analysis to make decisions.
    - Cost/benefit analysis is the process of comparing costs and benefits in order to make a good decision.
    - Cost/benefit analysis can be inaccurate without including opportunity cost. This is the cost of missing your next-best investment.
  - 7. Use SWOT analysis to evaluate a business opportunity.
    - Strengths: All of the capabilities and positive points that the entrepreneur has, from experience to contacts. These are internal to the organization.
    - Weaknesses: All of the negatives that the entrepreneur faces, such as lack of capital or training, or failure to set up a workable accounting system. These are internal to the organization.
    - Opportunities: Any positive external event or circumstance (including lucky breaks) that can help the entrepreneur get ahead of the competition.
    - Threats: Any external factor, event, or circumstance that can harm the business, such as competitors, legal issues, or declining economies.

## Key Terms

acquisition	opportunity cost
capital	product
capitalism	profit
commission	salary
cost/benefit analysis	service
dividend	social entrepreneurship
entrepreneur	strategy
free-enterprise system	trade-off
gazelle	venture philanthropy
green entrepreneurship	voluntary exchange
lifestyle business	wage
microenterprise	

## Entrepreneurship Portfolio

### Critical Thinking Exercises

1. What would be the best thing about owning your own business? What would be the worst?
2. Identify three nonfinancial benefits of entrepreneurship that might be important to you. Write a paragraph about each.
3. If you were to start a business, what would be your opportunity cost? In other words, what is the next-best use of your time? How much money could you make working at a job, instead? The answer to this question will give you a rough idea of how to value your time when you start a business and have to figure out how much to pay yourself.
4. Describe an idea that you have for a business. Explain how it could satisfy a consumer need.
5. Explain how a business opportunity differs from a business idea.
6. Give an example of a change that has occurred or is about to occur in your area/neighborhood. Discuss any business opportunities this change might create.
7. List five business opportunities in your area/neighborhood and the need(s) each would satisfy. Note whether the opportunity you describe is internal, external, or a mix.

### Key Concepts Questions

1. Define small business.
2. Explain how profit works as a signal to the entrepreneur.
3. Do you agree that it will probably take about three months for your business to start earning a profit? Why or why not? If not, how long do you expect it to take and why?
4. Describe three things you have learned about capitalism.
5. Visit the U.S. Small Business Administration for brochures and other materials. Find an office in your area or go to <http://www.sba.gov>.

### Application Exercises

Have a conversation with a friend or relative. Ask this person to tell you about which things he or she finds frustrating in the area/neighborhood. Write down these complaints.

- Step 1:** Generate at least three business opportunities from this conversation.
- Step 2:** Use the checklists below to evaluate your three business ideas as opportunities.
- Step 3:** Choose the best of the business opportunities and write a SWOT analysis for it.
- Step 4:** Create a cost/benefit analysis for starting this business. Use the analysis to explain why you would or would not actually start it.

Business Idea 1	Critical Evaluation	
Would it be attractive to potential customers?	Yes _____	No _____
Would it work in your business environment?	Yes _____	No _____
Is there a window of opportunity?	Yes _____	No _____
Do you have the skills and resources to create this business?	Yes _____	No _____
If you do not have the skills and resources to create this business, do you know someone who does and might want to create the business with you?	Yes _____	No _____
Business Idea 2	Critical Evaluation	
Would it be attractive to potential customers?	Yes _____	No _____
Would it work in your business environment?	Yes _____	No _____
Is there a window of opportunity?	Yes _____	No _____
Do you have the skills and resources to create this business?	Yes _____	No _____
If you do not have the skills and resources to create this business, do you know someone who does and might want to create the business with you?	Yes _____	No _____
Business Idea 3	Critical Evaluation	
Would it be attractive to potential customers?	Yes _____	No _____
Would it work in your business environment?	Yes _____	No _____
Is there a window of opportunity?	Yes _____	No _____
Do you have the skills and resources to create this business?	Yes _____	No _____
If you do not have the skills and resources to create this business, do you know someone who does and might want to create the business with you?	Yes _____	No _____

### Exploring Your Community

Interview an entrepreneur in your community. Entrepreneurs are busy people, but most are willing to spend time talking with someone who is interested in what they are doing. Meeting over a meal might be the most efficient use of the entrepreneur's time. Before the interview, brainstorm 10 questions in the following four categories. If you can, tape the interview with the entrepreneur's permission. After the interview, be sure to write a thank-you note.

- Information gathering.** Open the interview with questions about the entrepreneur's family (any other entrepreneurs in it?) and educational and work background.
- About the business.** Next, ask questions about how the business was started. How did the entrepreneur recognize an opportunity and develop it?
- Running the business.** Ask about what problems came up as the business got underway and how they were solved.

- d. *Reflection.* Ask the entrepreneur to reflect. What advice would he or she give to an aspiring entrepreneur? Has running a business been rewarding?

### ***Exploring Online***

Visit an Internet search engine, such as <http://www.google.com>, <http://www.yahoo.com>, <http://www.dogpile.com>, <http://www.AltaVista.com>, <http://www.BING.com>, or <http://www.MSN.com>. Search for one of the following sets of terms: business ideas, businesses for sale, or franchise opportunities. For the search that you selected, answer:

1. which search engine and term was used and
2. the number of matches (“hits”).

Next, find a site that looks promising and answer these questions:

1. What is the Web site (URL and name)?
  2. Who is sponsoring the Web site?
  3. Is the Web site selling a product or information (as a primary function, not through banner ads)? If so, what?
  4. Identify three businesses or ideas from the site, and state why they might or might not be viable opportunities.
-



## Case Study

# Craigslist: Organic Entrepreneurial Opportunity

Craig Newmark's e-mail blasts to friends and co-workers morphed into one of the most popular sites on the Internet. Newmark was not planning to start a business at all when he began sending out e-mail blasts about San Francisco area events. In 1995, Newmark was a software engineer at Schwab and sent the e-mails for fun. The number of people on the list continued to grow until e-mail blasts were no longer viable, due to the number of recipients.

In 1999, Newmark moved into a full-time role in operating his start-up venture. Even the name was user-driven. Newmark had another name in mind, but people had been calling the blasts Craig's List, and the name stuck. Over time, Newmark developed a Web-based site that connected people for apartments, jobs, relationships, and more.

Craigslist generated an estimated \$100 million in revenues in 2008. It generates in excess of 20 billion page views and has approximately 50 million unique visitors monthly. Driven by user demand, Craigslist has over 700 local sites in 70 countries. Yet, the company continues to operate out of a previously residential building in the Inner Sunset neighborhood of San Francisco.

Craig Newmark defies the rules of online business. Craigslist only charges fees for brokered apartment listings in New York City, job advertisements in 18 cities, and ads in its adult services category. The company relies upon word-of-mouth for advertising and trust for content. The site itself is relatively simplistic from a user perspective, consciously avoiding many of the leading Web-design dictates.

Newmark himself continues to serve as the company's customer service representative and founder. There is a team of about 30 that handles the balance of the company roles. In today's world, Craigslist could command considerably greater revenues and have even greater visibility, but Newmark has set his own goals.



## Case Study Analysis

1. What unmet needs of the customer, or conditions in the apartment hunting and job search processes, contributed to the success of Craigslist?
2. Do you think Craig Newmark thought through the Craigslist idea well enough before he launched the business?
3. How is Newmark's personality reflected in his company?
4. Is there a future for Craigslist? What might that future look like?

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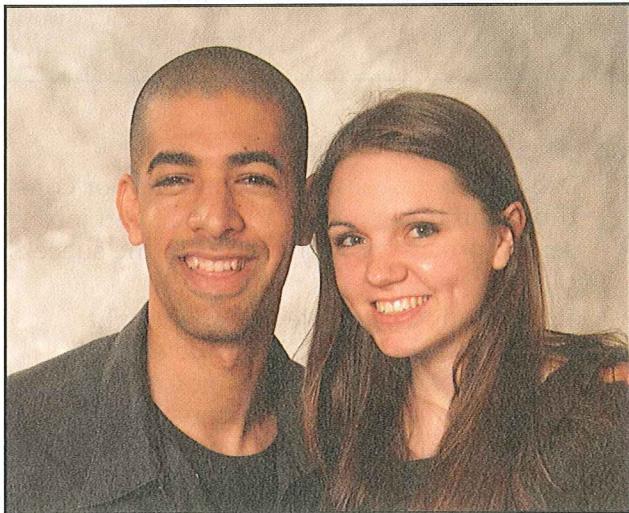
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**Extreme Entrepreneurship Education Corporation**

Michael Simmons and Sheena Lindahl are both New York University (NYU) graduates (2005) who found their calling in entrepreneurship education. Michael, a management and marketing major, and Sheena, a communication studies major, formed Extreme Entrepreneurship Education Corporation (EEEC) as a limited liability corporation in 2003, headquartered in New York City. However, the story really began a number of years earlier when Michael was just 16.



*Michael Simmons and Sheena Lindahl*

**Using the Internet to Start a Business**

While attending high school, Michael and his friend, Calvin Newport, decided to start their own Web-development company, Princeton Web Solutions (PWS). For \$80, they created their own Web site and submitted it to the online search engines. Only a few weeks later, they were hired to do their first project, for \$1,000.

With each new project, the young men's confidence grew. They were able to make a profit and still stay competitive in the market by charging \$75 per hour, about half the price of their competitors. The success of PWS led to public recognition in 2000, when *YoungBiz Magazine* rated the business as the #1 youth-run Web-development company in the United States.

After the dot-com market burst, many of PWS's potential clients disappeared. Michael used an online class scholarship, which he won from the National Foundation for Teaching Entrepreneurship (NFTE)—now the Network for Teaching

Entrepreneurship—to learn more about running a business. The course also helped him overcome his fear of public speaking.

**Sharing a Vision for Success**

In college, Michael was inspired to write a book that he called *The Student Success Manifesto*. The book was intended to help students think in a whole new way while taking action toward reaching their goals. He explains:

*I decided to write the book at the end of my freshman year when I realized, after my experience as an entrepreneur, that I had knowledge which could help my peers find passion, purpose, and prosperity in their own lives.<sup>1</sup>*

Through the Liberty Partnerships Program, Michael also got involved in teaching inner-city high school students about entrepreneurship. The Liberty Partnerships Program was established by the New York State Education Department to help prevent youths from dropping out of high school. Michael says:

*I had certain perceptions going in, that were changed after I really experienced the influence [of the program] in an environment that was very different from the one I was raised in.<sup>2</sup>*

Attending NYU at the same time as Michael, Sheena shared his entrepreneurial mindset. At age 17, Sheena became financially independent from her parents, and paid her way through college. Sheena also honed her entrepreneurial and educational skills while working at GreenHills Ventures, a venture capital firm, and teaching at Project R.E.A.D., a nonprofit organization that seeks to raise the reading skills of inner-city elementary school children.

Together, Michael and Sheena founded the EEEC, which was dedicated to helping college students realize their dreams through entrepreneurship. They have also formed a life partnership as husband and wife, and as parents.

**Making a Strategic Shift**

At first, Michael and Sheena had intended to be publishers of entrepreneurial content. After publishing *The Student Success Manifesto*, they believed they were moving in the right direction. The profit per book unit was good, but they needed to sell a lot of units in order to make publishing profitable enough to support them full time.

To sell more books, Michael and Sheena began seeking bulk purchases from schools and other youth organizations. One marketing strategy included talking to groups of students when the schools purchased books. This tactic helped Michael and Sheena to realize that people would pay them to speak, whether books were purchased or not. So, they started charging for their speaking services.

One thing led to another. As more and more students expressed appreciation for the messages Michael and Sheena shared, the two of them explored ways to also include the stories of other young, successful entrepreneurs. Many ideas were discussed and rejected, but eventually the Extreme Entrepreneurship Tour (EET) was launched in 2006.

The EET is the first national collegiate entrepreneur tour in which students from all academic disciplines participate in half-day, campus-held events. A tour event can also be customized for a high school audience or local community members. The tour focuses on one of two themes: entrepreneurship, or “dream action.” The content for a particular tour event can be customized to fit either theme.

Each tour event includes a successful young entrepreneur as the keynote speaker, exhibits, a workshop, speed networking, and a panel discussion with local entrepreneurs. An example of a typical event’s program is illustrated on the EET Web site.<sup>3</sup>

### Operating the Tour

Running the tour involves a considerable investment of financial resources. For example, a customized 31-foot Winnebago transports the speakers and tour manager, EET banners, technical equipment, and registration setup equipment. For each event, there are at least three speakers, two of which are not EET employees, for whom there are expenses, including travel. EET provides pre-event support to event organizers, including conference calls and a point person to answer any questions.

Event organizers can visit the Web site to find templates for promotional posters and flyers, best practice information for participation, and information for pre-event setup. The schools are responsible for the promotion, event venue, refreshments, and the like. EET develops and prints an event program/workbook with speaker biographies, one semester at a time.

A tour event is made financially possible through one or more sponsors that may include

Type	Who	Content	Time
Event Introduction	EET & School Representative	Intro to event, entrepreneurship, speakers, and corporate partners	3:00 – 3:15 p.m.
Inspirational Keynote 1	Successful Young Entrepreneur	“How they did it” story with lessons	3:15 – 3:45 p.m.
Workshop	EET Workshop, Facilitator, and Entrepreneur	Dream / idea creation with action plan and accountability.	3:45 – 4:45 p.m.
Networking Break / Exhibits			4:45 – 5:00 p.m.
Inspirational Keynote 2	Successful Young Entrepreneur	“How they did it” story with lessons learned	5:00 – 5:30 p.m.
Speed Networking		Attendees share their ideas with each other and partner up	5:30 – 5:45 p.m.
Networking Break / Exhibits			5:45 – 6:00 p.m.
Extreme Entrepreneurship Panel	EET Moderator, Students & Alumni, and Entrepreneurs	Panelists choose one to two questions to discuss and open up for other questions	6:00 – 7:00 p.m.



Extreme Entrepreneurship tour bus

local companies and economic/workforce development organizations. In turn, student body participation and media coverage benefit the event sponsors by allowing them to connect with

hundreds or even thousands of students in a positive way. Opportunities to create company awareness, foster brand or product loyalty, and do employee recruiting are some of the benefits sponsors can reap from a tour event.

Since the EET was started in 2006, over 80 schools have held an event, and that number keeps growing. Aside from Michael and Sheena, the staff has been mostly contractual. Revenues are based on fees charged to the host institution or organization, and event sponsorship.

The tour has won recognition for its excellence by receiving Northern Michigan University's 2007–2008 Program of the Year Award, and the 2008 Innovation Award from the National Association of Development Organizations.

### Following Up Events with Action

After an EET event, students are able to continue benefitting from the experience by using JourneyPage, a virtual incubator for launching a business. JourneyPage is made up of tools and information that encourage personal accountability, allow students to continue relationships formed at a tour event, and provide access to entrepreneurial mentors.

For example, JourneyPage has a Web-based accountability tool that helps students reduce procrastination and maintain motivation and momentum. This is facilitated by goal tracking and partnering with other students who have similar aspirations. The accountability tool works in the following ways:

- Each member has an accountability partner.
- Each day, members enter their three most important business-related goals for that day.
- At the end of each day, a goal may be marked as completed, or it can be reset or delayed.
- Weekly scores are computed, based on goal completion. This data is tracked so that accountability partners and other friends using JourneyPage can see a member's progress.
- As a result, accountability partners and friends can offer feedback, encouragement, and coaching to their fellow members.

In addition to the accountability tool, JourneyPage provides content such as articles, audio, and video segments from tour keynote speakers, business and legal templates, resource lists and a searchable database, and a personal coaching

program. After a student is accepted into the coaching program, he/she is provided with

- an initial one-hour consultation;
- daily e-mails in response to the goals being tracked with the accountability tool; and
- a telephone call each week to discuss difficulties the student may be having, and to help him/her make plans for the following week.

Although JourneyPage is available for personal use, it can also be licensed by schools and various development centers/agencies. In addition to JourneyPage, tour event content is available in a "Road Tour in a Box" package that consists of stories and lessons learned by successful young entrepreneurs.

### Keeping the Business on Track

In order to stay on course and be successful, Michael and Sheena evaluate key performance indicators on a regular basis. Weekly measures center on budget versus actual performance. Calculations are primarily the number of students who attend the event, the student and host ratings of the event, and the budget performance. On a semester basis, the repeat customer percentage, the referral rate, the number of events, and the level of revenues are critical. Sheena explains,

*We measure what is meaningful to our growth and what we can measure given our time and financial resource capacity.*

Michael and Sheena also formed a high-powered advisory board in 2007 that meets to review financial performance and work on specific issues. Sheena and Michael continue to keep their eyes on the key performance indicators so that they can keep on bringing the EET to colleges and universities nationwide.

### Looking Back at the Planning Process

Some past ideas that were considered but rejected included creating young entrepreneur book lines, and applying the entrepreneurial mindset to various career book lines. However, looking back on how the EET evolved, Sheena points out that it was the gradual, small actions that put them in the position to create the tour, not excessive amounts of idea planning. The building of relationships with people in their market enabled Sheena and Michael to understand their customers' needs and wants. The tour business model best met those needs.

To gauge potential costs of running the tour, Michael and Sheena used the economics of one unit, and they tested their idea in the marketplace to find out whether they could sell it. In other words, they started slow by doing a scaled-down version of the program. For example, in the EET's first year, they did not use a tour bus. Based on her experience, Sheena suggests,

*If you can try the business at some level without a huge investment, essentially doing mini-tests, you can see if things are working without taking a sizeable risk.*

Over the years, Michael and Sheena have created many formal business plans and executive summaries for competitions. Now, they mostly use PowerPoint presentation slides to help them build their internal business strategies. This less formal approach is simpler, makes it easy to adjust their plans, but still helps ensure that all the angles are considered.

### Balancing Business and Family

Michael and Sheena find working together enjoyable. However, they do set limits and expectations to help minimize the stress of the business on their relationship. Specific times are set aside for work, family, and personal time. They also believe in the importance of communication. For example, if they are going out to dinner, they agree beforehand whether it will be a dinner to discuss business or just time to be together and have fun.

### Investing in Yourself

When asked about the best way for college students to make more money, Michael replies,

*I would definitely recommend that students invest their money in themselves and not in near-sighted whimsical things that they*

*won't have around, won't help them succeed, tomorrow or ten years from now. When you invest the money you make in yourself, you receive compound interest and incredible returns.<sup>4</sup>*

### Case Study Analysis

1. Prior to starting the EET, what types of things did Michael and Sheena do to help themselves build entrepreneurial knowledge/skills?
2. What motivated Michael and Sheena to start the EET?
3. How did Michael and Sheena determine that the EET was a sound idea? Did they use a feasibility analysis? What ideas did they discard before deciding on the EET?
4. What are the key messages that the EET delivers to prospective entrepreneurs?
5. Is the EET a business model that is conducive to franchising? Why or why not?
6. EET is a family business. How do Michael and Sheena address the issues of balancing the demands of the business with the family?

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