

TYPES OF ENTERPRISES

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The Enterprise

- Types of enterprises
- Implications for your business and your lifestyle

The Enterprise

Value Creation



- Create value through its operations

Value Distribution



- Allow various parties to capture value (founders, investors, partners, etc.)

Reach



- Reach “everyone” – how to reach as many people as possible

Note: don't confuse 'type of enterprise' with 'legal structure'; legal structures are a different topic to be discussed in another module





Six types of enterprises are the most common

- High growth (aka 'venture-backed')
- Lifestyle
- Small business
- By acquisition
- Social focused
- Large Corporate-based

All have implications on

1) Business Expectations

2) Lifestyle

The Venture-backed Startup

A high growth enterprise that delivers large returns to founders and investors

Business Implications

- **Getting Started:** Firms are often small at “birth”, but designed to become very large, very quickly
 - “scalable startups”
 - Typical Silicon Valley startup model
- **Financial:** usually depends on several rounds of Angel and/or Venture Capital investment
- **Growth Expectation:** rapid growth
- **Exit:** usually these firms start out with an “exit strategy”, as investors want a plan to get their money back

Lifestyle Implications

- Personal life comes second
- “Must grow” mentality overshadows other concerns
 - Can put pressure on personal situation
 - Lifestyle may suffer, or may need to “go on pause”
 - Need to be ready to ‘give it all’ for business growth



Lifestyle Business

Your desired lifestyle drives your business ambitions

Business Implications

- **Getting Started:** Founders have clear view of 'end game' in terms of desired size (revenue or profit)
- **Financial:** usually funded by the founders themselves, friends and family, or possibly a bank loan; probably does not involve formal private investors (such as venture capitalists)
- **Growth Expectation:**
 - grow to cover equity / debt costs
 - stops when founders achieve lifestyle desired
- **Exit:** usually no formal exit; rather, founders run business to allow desired lifestyle

Lifestyle Implications

- Usually has a healthy life / work balance as the founders trade off 'higher growth' potential for lifestyle
- May involve personal tradeoffs at moments, or in beginning, but usually nothing unsustainable



Organic Growth Business

Running a stable and manageable operation

Business Implications

- **Getting started:** Founders usually focused on starting one shop and not focused on high growth
- **Financial:** usually funded by the founders, friends and family or possibly a bank loan; does not usually involve formal private investors
- **Growth Expectation:**
 - grow to cover equity / debt costs
 - Typically focused on “providing” not on “wealth”
- **Exit:** no formal exit envisioned, founders run business to support family, lifestyle

Lifestyle Implications

- Usually has a healthy life / work balance, although running a small business can also be highly stressful depending on the business and the needs of the founder
- May involve long hours as the company is usually only a handful of employees



Entrepreneurship by Acquisition

Buying an existing business

Business Implications

- **Getting started:** Founders look for an attractive business (possibly underperforming) to buy and run (possibly to grow or improve)
- **Financial:**
 - usually founders, friends & family, bank loan
 - larger acquisition may have larger private funding (Private equity)
- **Growth Expectation:**
 - Growth linked with founders' ambitions and investors' needs (e.g. return requirements)
- **Exit:** usually run for existing cash-flow or to improve profitability; may sell at higher price later

Lifestyle Implications

- Highly dependent on exit – whether run for cash or run for sale
- If run for cash can mean that a founder skips over initial (and possibly stressful) startup phase
- Due diligence is key - like with a house or car, there are always things you don't know when you buy; big question is what “skeletons” are in the closet?



Social Ventures

Focused on social impact; but may also have a profit mission

Business Implications

- **Getting started:** Founders pursue growth and profits in support of a broader social mission
- **Financial:** usually via the founders, friends, family, bank loan, and in some cases Angel and/or Venture Capital investment (if the investors sense growth potential)
- **Growth Expectation:** depends on founders and investors
- **Exit:** usually focused on achieving social mission, rarely a formal exit envisioned unless combining with larger socially oriented firm

Lifestyle Implications

- Lifestyle implications depend heavily on type of venture envisioned, its reach, the funding (friends & family vs. formal investors)



Corporate Intrapreneurship

Jump starting new growth from within a large enterprise

Business Implications

- **Getting started:** usually started at highest levels of a corporation or in a 'skunkworks' manner (i.e. secret project of an executive)
- **Financial:** largely funded by either the corporation or a business unit
- **Growth Expectation:**
 - Usually aimed at jumpstarting growth, entering a new or fast-paced market that the parent can not enter easily
- **Exit:** purpose is to establish new growth engines or assets for the parent company

Lifestyle Implications

- Would be directly linked with internal corporate and business unit objectives, goals, needs, and pressures

Types of Enterprises

Type	Examples
Venture	Uber
Lifestyle	Custom pool tables
Small	Local town boot shop
Acquisition	Manufacturing plant
Social	Cotopaxi
Corporate	Classic skunkworks – Boeing

Types of Enterprises



Key points:

- **Be aware** of how the **type of enterprise** you pursue, the **requirements** to get started, and your **desired lifestyle** all mesh together
- Ultimately you will need to **decide what is right for you**





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