Chapter 7

Entrepreneurship

Entrepreneurship

Why has entrepreneurship remained such a strong part of the foundation of the U.S. business system for so many years? Because today's global economy rewards innovative, flexible companies that can respond quickly to changes in the business environment.

Are You Ready to Be an Entrepreneur?

Here are some questions would-be entrepreneurs should ask themselves:

1. What is new and novel about your idea? Are you solving a problem or unmet need?
2. Are there similar products/services out there? If so, what makes yours better?
3. Who is your target market? How many people would use your product or service?
4. Have you talked with potential customers to get their feedback? Would they buy your product/service?
5. What about production costs? How much do you think the market will pay?
6. How defensible is the concept? Is there good intellectual property?
7. Is this innovation strategic to my business?
8. Is the innovation easy to communicate?
9. How might this product evolve over time? Would it be possible to expand it into a product line? Can it be updated/enhanced in future versions?
10. Where would someone buy this product/service?
11. How will the product/service be marketed? What are the costs to sell and market it?
12. What are the challenges involved in developing this product/service?

Entrepreneur or Small-Business Owner?

The term *entrepreneur* is often used in a broad sense to include most small-business owners. But there is a difference between entrepreneurship and small business management. **Entrepreneurship involves taking a risk, either to create a new business or to greatly change the scope and direction of an existing one.** Entrepreneurs typically are innovators who start companies to pursue their ideas for a new product or service. They are visionaries who spot trends. Although entrepreneurs may be small-business owners, not all small-business owners are entrepreneurs. **Small-business owners are managers with technical expertise who started a business or bought an existing business and made a conscious decision to stay small.**

Types of Entrepreneurs

1. **Classic Entrepreneur** – risk takers who start their own companies based on innovative ideas.

    a. Some classic entrepreneurs are **micropreneurs** who start small and plan to stay small.

    b. In contrast, ***growth-oriented entrepreneurs*** want their business to grow into a major corporation.

2. **Multipreneurs** - Entrepreneurs who start a series of companies.

3. **Intrapreneurs –** Entrepreneurs that don't own their own companies but apply their creativity, vision, and risk-taking within a large corporation.

Why Become an Entrepreneur?

Challenge of building a business, desire to control destiny, financial independence, frustration of working for someone else, and personal satisfaction and create lifestyle you want.

Characteristics of Successful Entrepreneurs (RAISE VCPC)

Managers are **R**isk-takers, **A**mbitious, **I**ndependent, **S**elf-confident, **E**nergetic, **V**isionary, **C**reative, **P**assionate and **C**ommitted.

Managerial Ability and Technical Knowledge

Entrepreneurs need the technical knowledge to carry out their ideas and the managerial ability to organize a company, develop operating strategies, obtain financing, and supervise day-to-day activities. Good interpersonal and communication skills are also important.

Start Your Own Business

- **Getting Started**

  Checklist for Starting a Business

  Before you start your own small business, consider the following checklist:
  - Identify your reasons
  - Self-analysis
  - Personal skills and experience
  - Finding a niche
  - Conduct market research
  - Plan your start-up: write a business plan
  - Finances: how to fund your business

- **Finding the idea**
- **Choosing a Form of Business Organization** - A key is whether it will be a sole proprietorship, partnership, corporation, or limited liability company.
- **Developing the Business Plan -** planning process, culminating in a sound business plan, is one of the most important steps in starting a business. It can help to attract appropriate loan financing, minimize the risks involved, and be a critical determinant in whether a firm succeeds or fails.
  Key elements of a business plan - Executive summary, Vision and mission statement, Company overview, Product and/or service plan, Marketing plan, Management plan, Operating plan, Financial plan, Appendix of supporting documents.
- **Financing the Business (What are the forms?)**
  1. Debt - borrowed funds that must be repaid with interest over a stated time period
  2. Equity - funds raised through the sale of stock (i.e., ownership) in the business.
  3. Bootstrapping - funding the operation with your own resources.
  4. Angel investors - individual investors or groups of experienced investors who provide financing for start-up businesses by investing their own money, often referred to as "seed capital."
  5. Venture capitalists - investment firms that specialize in financing small, high-growth companies.

Buying a Small Business

Another route to small-business ownership is buying an existing business. Although this approach is less risky, it still requires careful and thorough analysis. The potential buyer must answer several important questions: Why is the owner selling? Does he or she want to retire? Will customers be more loyal to the owner than to the product? Customers could leave the firm if the current owner decides to open a similar business. To protect against this, many purchasers include a *noncompete clause* in the contract of sale, which generally means that the owner of the company being sold may not be allowed to compete in the same industry for a specific amount of time.

Risky Business

Running your own business may not be as easy as it sounds. Businesses close down for many reasons–and not all are failures. Some businesses that close are financially successful and close for nonfinancial reasons. Some common causes of business closure are:

- **Economic factors**—business downturns and high interest rates
- **Financial causes**—inadequate capital, low cash balances, and high expenses
- **Lack of experience**—inadequate business knowledge, management experience, and technical expertise
- **Personal reasons**—the owners may decide to sell the business or move on to other opportunities

Inadequate early planning is often at the core of later business problems. As described earlier, a thorough feasibility analysis, from market assessment to financing, is critical to business success. **The stress** of managing a business can also take its toll.

Managing a Small Business

Managing a small business is quite a challenge. A sound business plan is key to keeping the small-business owner in touch with all areas of his or her business. Hiring, training, and managing employees are another important responsibility because the owner's role may change over time.

Using Outside Consultants

Nearly all small businesses need a good certified public accountant (CPA) who can help with financial record keeping, decision-making, and tax planning. Resources such as these free the small-business owner to concentrate on medium and long-range planning and day-to-day operations. Some aspects of business can be outsourced or contracted out to specialists. Hiring an outside company, in many cases another small business can save money because the purchasing firm buys just the services it needs and makes no investment in expensive technology. Management should review outsourced functions as the business grows because at some point it may be more cost-effective to bring them in-house.

Hiring and Retaining Employees

It is important to identify all the costs involved in hiring an employee to make sure your business can afford it. Recruiting, help-wanted ads, extra space, and taxes will easily add about 10–15 percent to their salary, and employee benefits will add even more. Attracting good employees is more difficult for a small firm, which may not be able to match the higher salaries, better benefits, and advancement potential offered by larger firms. Once they hire an employee, small-business owners must make employee satisfaction a top priority in order to retain good people.

Going Global with Exporting

Small businesses' decision to export is driven by many factors, one of which is the desire for increased sales and higher profits. U.S. goods are less expensive for overseas buyers when the value of the U.S. dollar declines against foreign currencies and this creates opportunities for U.S. companies to sell globally. In addition, economic conditions such as a domestic recession, foreign competition within the United States, or new markets opening up in foreign countries may also encourage U.S. companies to export.

Like any major business decision, exporting requires careful planning. Small businesses may hire international-trade consultants or distributors to get started selling overseas. These specialists have the time, knowledge, and resources that most small businesses lack. Export trading companies (ETCs) buy goods at a discount from small businesses and resell them abroad. Export management companies (EMCs) act on a company's behalf. For fees of 5‑15 % of gross sales and multiyear contracts, they handle all aspects of exporting; including finding customers, billing, shipping, and helping the company comply with foreign regulations. Many online resources are also available to identify potential markets for your goods and services, as well as to decipher the complexities involved in preparing to sell in a foreign country.

Why small businesses continue to thrive?

- **Independence and a better lifestyle**
- **Personal satisfaction from work**
- **Best route to success**
- **Rapidly changing technology**: Technology advances and decreased costs provide individuals and small companies with the power to compete.
- **Small businesses are resilient**
- **Major corporate restructuring and downsizing**: These force many employees to look for other jobs or careers. They may also provide the opportunity to buy a business unit that a company no longer wants.
- **Outsourcing**: As a result of downsizing, corporations may contract with outside firms for services they used to provide in-house. Outsourcing creates opportunities for smaller companies that offer these specialized goods and services.

Why Stay Small?

Being small offers special advantages. Greater flexibility and an uncomplicated company structure allow small businesses to react more quickly to changing market forces. Innovative product ideas can be developed more quickly, using fewer financial resources and personnel. And operating more efficiently keeps costs down as well. Small companies can also serve specialized markets that may not be cost-effective for large companies. Another feature is the opportunity to provide a higher level of personal service. Such attention brings many customers back to small businesses such as gourmet restaurants, health clubs, spas, fashion boutiques, and travel agencies.

On the other hand, being small is not always an asset. The founders may have limited managerial skills or encounter difficulties obtaining adequate financing, potential obstacles to growing a company. Complying with federal regulations is also more expensive for small firms. Those with fewer than 20 employees spend about twice as much per employee on compliance. In addition, starting and managing a small business requires a major commitment by the owner. Long hours and the stress of being personally responsible for the success of the business can take a toll.

How does the Small Business Administration (SBA) help small businesses?

- **Financial Assistance Programs** - This assistance takes the form of guarantees on loans made by private lenders. These loans can be used for most business purposes, including purchasing real estate, equipment, and materials.
- **SCORE-ing with Management Assistance Programs -** The SBA also provides a wide range of management advice. Business development officers at the Office of Business Development and local Small Business Development Centers counsel many thousands of small-business owners each year, offering advice, training, and educational programs. The SBA also offers free management consulting through two volunteer groups: the **Service Corps of Retired Executives (SCORE)**, and the **Active Corps of Executives (ACE)**. Executives in these programs use their own business backgrounds to help small-business owners.
- **Assistance for Women and Minorities** – The SBA offers a minority small-business program, microloans, and the publication of Spanish-language informational materials. It has increased its responsiveness to small businesses by giving regional offices more decision authority and creating high-tech tools for grants, loan transactions, and

eligibility reviews. It also offers special programs and support services for socially and economically disadvantaged persons, including women, Native Americans, and Hispanics through its Minority Business Development Agency. It also makes a special effort to help veterans go into business for themselves.

Key Terms

Angel investors - Individual investors or groups of experienced investors who provide financing for start-up businesses by investing their own funds.

Business plan - A formal written statement that describes in detail the idea for a new business and how it will be carried out; includes a general description of the company, the qualifications of the owner, a description of the product or service, an analysis of the market, and a financial plan.

Debt - A form of business financing consisting of borrowed funds that must be repaid with interest over a stated time period.

Entrepreneurs - People with vision, drive, and creativity that are willing to take the risk of starting and managing a business to make a profit, or greatly changing the scope and direction of an existing firm.

Equity - A form of business financing consisting of funds raised through the sale of stock (i.e., ownership) in a business.

Intrapreneurs - Entrepreneurs who apply their creativity, vision, and risk-taking within a large corporation, rather than starting a company of their own.

Small business - A business with under 500 employees that is independently managed, is owned by an individual or a small group of investors, is based locally, and is not a dominant company in its industry.

Small Business Administration (SBA) - A government agency that speaks on behalf of small business; specifically it helps people start and manage small businesses, advises them in the areas of finance and management, and helps them win federal contracts.

Small Business Investment Company (SBIC) - Privately owned and managed investment companies that are licensed by the Small Business Administration and provide long-term financing for small businesses.

Venture capital - Financing obtained from venture capitalists, investment firms that specialize in financing small, high-growth companies and receive an ownership interest and a voice in management in return for their money.