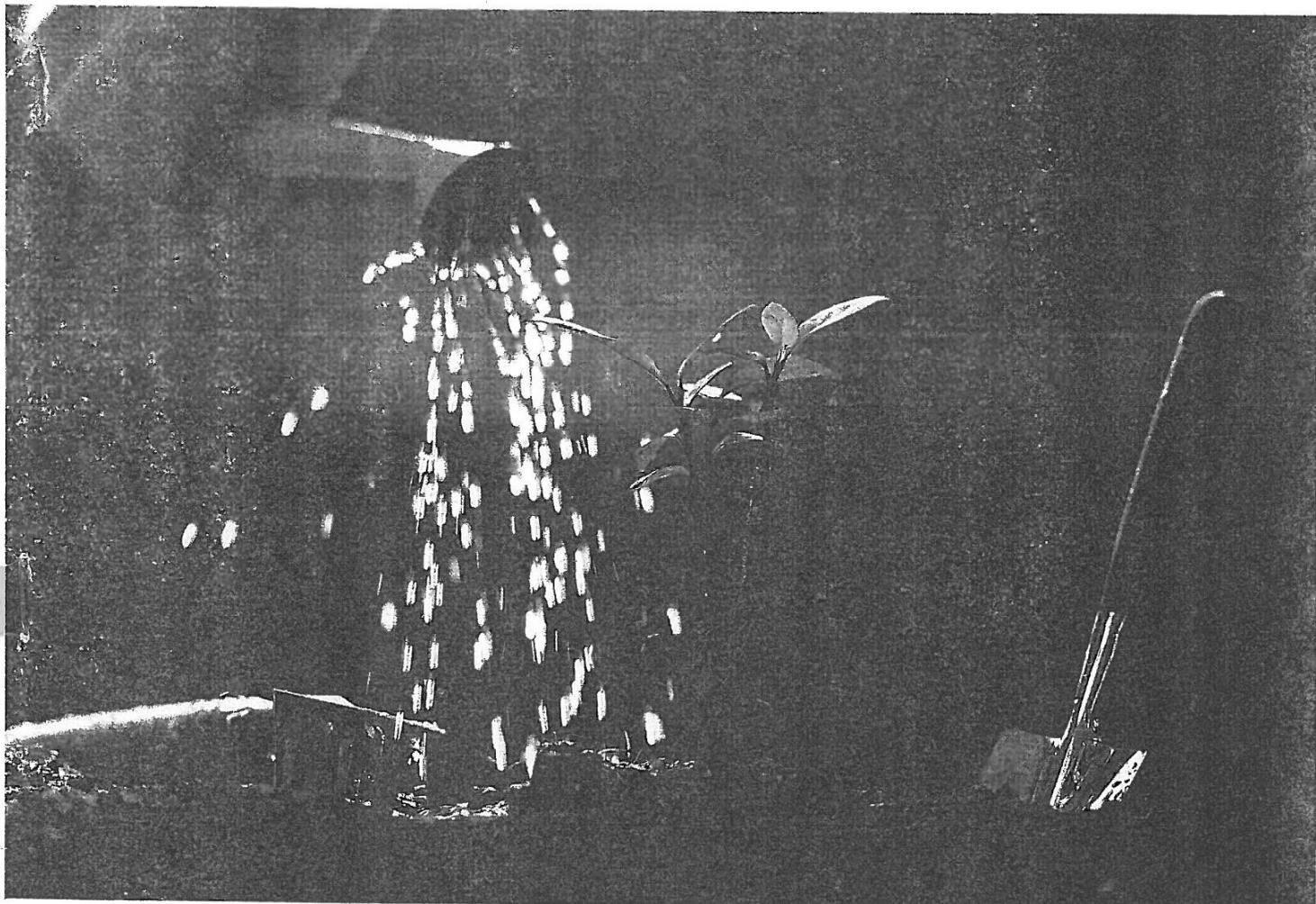


GLOBAL
EDITION



Essentials of Entrepreneurship and Small Business Management

EIGHTH EDITION



Norman M. Scarborough • Jeffrey R. Cornwall

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CASES

ESSENTIALS OF ENTREPRENEURSHIP AND SMALL BUSINESS MANAGEMENT, 8/E

Case #	Entrepreneur & Company Name	Related Topics	Chapter Reference
1	Vincent Ko, Luke Lagera, and Mike Mills Panda Sunglasses	Industry: Bamboo Sunglasses * Social Entrepreneurship * Social Responsibility * Business Model * Bootstrap Marketing and Social Media * E-Commerce	1 2 4 8 9
2	Dr. Luke Alphy Oxitec	Industry: Biotech * Business Ethics and Social Responsibility * Business Model	2 4
3	Gerald Shvartsman Source Outdoor	Industry: Outdoor Furniture * Entrepreneurship * Business Model * Global Business	1 4 15
4	Carlos Vega Father and Son Pizzeria	Industry: Restaurant * Intellectual Property * Strategic Planning * Bootstrap Marketing * Location	3 5 8 14
5	Laura and Doug Zander Jimmy Beans Wool	Industry: E-Commerce and Retail Yarn * Strategic Planning * E-Commerce * Cash Management	5 9 12
6	Telford and Ivey James James Confectioners – Part 1	Industry: Chocolate Confections * Pricing * Financial Analysis	10 11
7	Telford and Ivey James James Confectioners – Part 2	Industry: Chocolate Confections * Managing Cash Flow	12
8	Brian Razzaque SocialToaster	Industry: Social Media * Business Plan * Sources of Financing	5 13
9	Sam Davidson CoolPeopleCare	Industry: Social Enterprise * Social Entrepreneurship * Business Model * Business Plan * Bootstrap Marketing	1 and 2 4 5 8
10	Michael Brody-Waite InQuicker	Industry: Healthcare * Strategic Planning * Equity Financing * Culture	5 13 16

Global Edition

Essentials of Entrepreneurship and Small Business Management

Eighth Edition

Norman M. Scarborough

Presbyterian College

Jeffrey R. Cornwall

Belmont University

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The Foundations of Entrepreneurship



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Learning Objectives

On completion of this chapter, you will be able to:

1. Define the role of the entrepreneur in business in the United States and around the world.
2. Describe the entrepreneurial profile.
- 3A. Describe the benefits of entrepreneurship.
- 3B. Describe the drawbacks of entrepreneurship.

4. Explain the forces that are driving the growth of entrepreneurship.
5. Explain the cultural diversity of entrepreneurship.
6. Describe the important role that small businesses play in our nation's economy.
7. Put failure into the proper perspective.
8. Explain how an entrepreneur can avoid becoming another failure statistic.

LO1

Define the role of the entrepreneur in business in the United States and around the world.

The World of the Entrepreneur

Welcome to the world of the entrepreneur! Around the world, growing numbers of people are realizing their dreams of owning and operating their own businesses. Entrepreneurship continues to thrive in nearly every corner of the world. Globally, one in eight adults is actively engaged in launching a business.¹ Research by the Kauffman Foundation shows that in the United States alone, entrepreneurs launch 476,000 businesses each month.² This entrepreneurial spirit is the most significant economic development in recent business history. In the United States and around the globe, these heroes of the new economy are reshaping the business environment and creating a world in which their companies play an important role in the vitality of the global economy. With amazing vigor, their businesses have introduced innovative products and services, pushed back technological frontiers, created new jobs, opened foreign markets, and, in the process, provided their founders with the opportunity to do what they enjoy most. “Small businesses have been at the core of our economy’s growth over the last few years,” says Winslow Sargeant, chief counsel of the U.S. Small Business Administration’s Office of Advocacy.³

Entrepreneurial activity is essential to a strong global economy. Many of the world’s largest companies continue to engage in massive downsizing campaigns, dramatically cutting the number of employees on their payrolls. This flurry of “pink slips” has spawned a new population of entrepreneurs: “castoffs” from large corporations (in which many of these individuals thought they would be lifetime ladder climbers) with solid management experience and many productive years left before retirement. According to the Small Business Administration, during a recent one-year period, the largest companies in the United States (those with 500 or more employees) *shed 1.7 million net jobs*; during the same period, small businesses with fewer than 20 employees *created 287,000 net jobs!*⁴

One casualty of this downsizing has been the long-standing notion of job security in large corporations. As a result, many people no longer see launching a business as a risky career path. Having been victims of downsizing or having witnessed large companies execute layoffs with detached precision, these people see entrepreneurship as the ideal way to create their own job security and success. Rather than pursue corporate careers after graduation, many college students are choosing to launch companies of their own. They prefer to control their own destinies by building their own businesses.



ENTREPRENEURIAL PROFILE: Christopher Kelley: Bad Newz BBQ For years, Christopher Kelley had dreamed of becoming a mobile restaurateur by launching a food truck that specialized in barbecue but was hesitant to give up the security of his job at the company where he had worked in maintenance for 14 years. Like many entrepreneurs, Kelley refused to give up on his dream, bought a food truck, outfitted it, and started Bad Newz BBQ as a part-time business, catering local school events, church gatherings, and fundraisers in Huntsville, Alabama. Two months later, Kelley’s employer announced a massive layoff, and Kelley’s job was eliminated. The layoff prompted Kelley to transform Bad Newz BBQ into a full-time business, and he began marketing his food truck via social and traditional media, even landing a regular spot at a nearby army post. Kelly, who is 43 years old and has lost three jobs over the last 20 years to layoffs, decided it was time to take control of his own destiny by starting a business. He advises other entrepreneurs to believe in their abilities even when others do not and to devote all of their energy into building a successful business.⁵ ■

The downsizing trend among large companies has created a more significant philosophical change. It has ushered in an age in which “small is beautiful.” Twenty-five years ago, competitive conditions favored large companies with their hierarchies and layers of management; today, with the pace of change constantly accelerating, fleet-footed, agile, small companies have the competitive advantage. These nimble competitors can dart into and out of niche markets as they emerge and recede, they can move faster to exploit market opportunities, and they can use modern technology to create, within a matter of weeks or months, products and services that once took years and all the resources a giant corporation could muster. The balance has tipped in favor of small, entrepreneurial companies. Howard Stevenson, Harvard’s chaired professor of entrepreneurship, says, “Why is it so easy [for small companies] to compete against giant corporations? Because while they [the giants] are studying the consequences, [entrepreneurs] are changing the world.”⁶

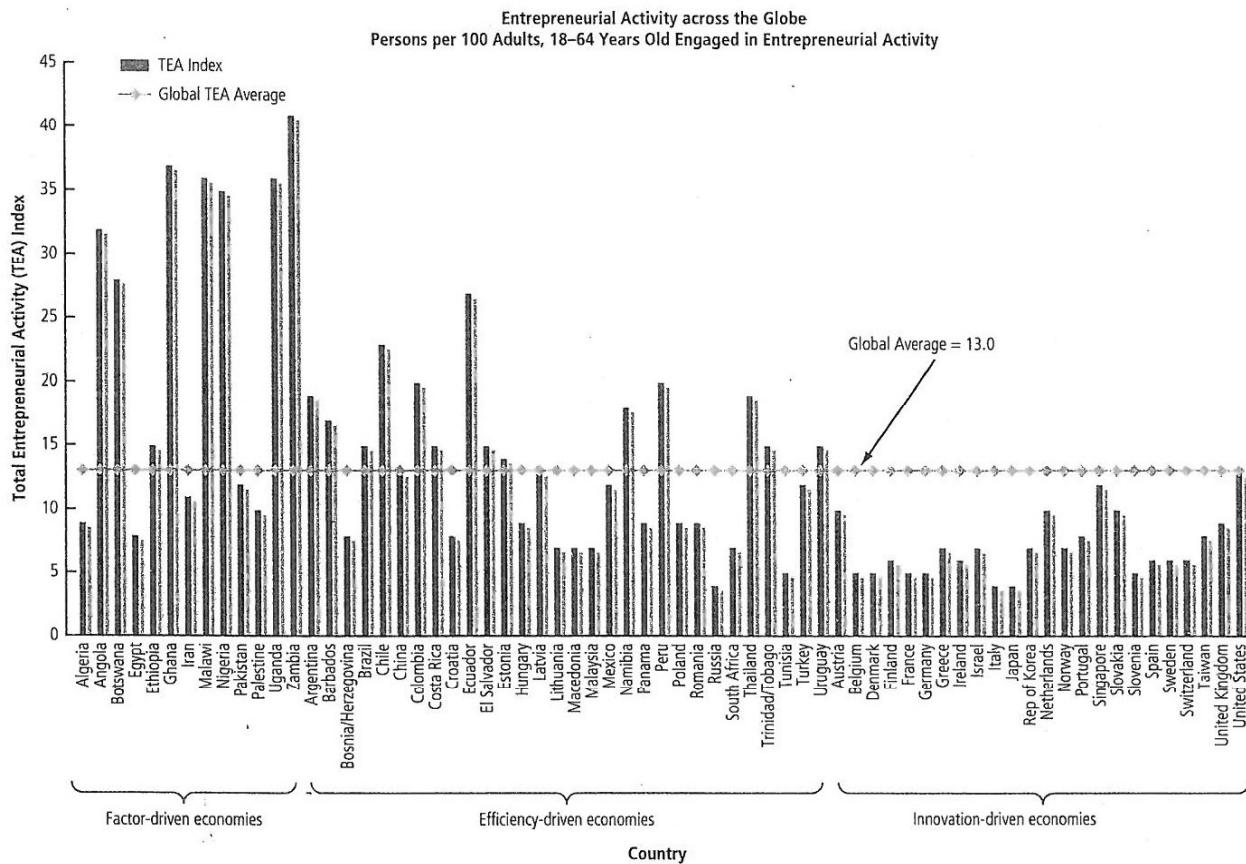


FIGURE 1.1
Entrepreneurial Activity Across the Globe

Source: Based on data from José Ernesto and Neils Bosma, *Global Entrepreneurship Monitor 2013 Global Report*, Babson College, Universidad del Desarrollo, Universiti Tun Abdul Razak, and London Business School, 2014, pp. 30–31.

One of the most comprehensive studies of global entrepreneurship conducted by the Global Entrepreneurship Monitor (GEM) shows significant variation in the rate of new business formation among the nations of the world when measured by total entrepreneurial activity or TEA (see Figure 1.1). The most recent edition of the study reports that 12.7 percent of the adult population in the United States—one in eight people—is working to start a business. The GEM study also reports that globally men are nearly twice as likely to start a business as women; that entrepreneurs are most likely to launch their companies between the ages of 35 and 44; and that the majority of people in the world see entrepreneurship as a good career choice.⁷ The health of the global economy and the level of entrepreneurial activity are intertwined. “The world economy needs entrepreneurs,” says GEM researcher Kent Jones, “and increasingly, entrepreneurs depend on an open and expanding world economy for new opportunities and growth—through trade, foreign investment, and finance.”⁸

The United States and many other nations are benefiting from this surge in global entrepreneurial activity. Eastern European countries, China, Vietnam, and many other nations whose economies were state controlled and centrally planned are now fertile ground for growing small businesses. Table 1.1 shows some of the results from a recent study that ranks 118 nations according to the quality of the entrepreneurial environment they exhibit. Although troubled by corruption, a poor “ease of doing business” ranking, and a low quality entrepreneurial environment, Kenya is home to entrepreneurs of all ages who are hard at work solving problems that range from healthcare and electricity shortages to providing clean water and fashionable clothing to the nation’s 41 million residents.

TABLE 1.1 Entrepreneurship-Friendly Nations

Which nations provide the best environment for cultivating entrepreneurship? A recent study ranked 121 countries on the quality of the entrepreneurial environment using the Global Entrepreneurship and Development Index (GEDI), which includes a variety of factors that range from the availability of capital and workforce quality to attitudes toward entrepreneurs and technology available. The maximum GEDI score is 100.

GEDI Score, Top Ten Countries	GEDI Score, Bottom Ten Countries
1. United States 82.5	109. Madagascar 19.6
2. Canada 81.7	110. Ivory Coast 19.4
3. Australia 77.9	111. Uganda 19.3
4. Sweden 73.7	112. Mali 18.8
5. Denmark 72.5	113. Pakistan 18.7
6. Switzerland 70.9	114. Mauritania 18.5
7. Taiwan 69.5	115. Sierra Leone 17.6
8. Finland 69.3	116. Burundi 15.5
9. Netherlands 69.0	117. Chad 15.0
10. United Kingdom 68.6	118. Bangladesh 13.8

Source: “GEDIIndex 2014,” The Global Entrepreneurship and Development Institute, 2013, <http://www.thegedi.org/>.



Courtesy of Stawi Foods and Fruits

ENTREPRENEURIAL PROFILE: Eric Muthomi: Stawi Foods and Fruits Eric Muthomi grew up in Meru, Kenya, and studied law at the Catholic University of East Africa. While Muthomi was earning his law degree, his goal was to start his own business. After graduating in 2010, Muthomi, just 26 years old, launched Stawi Foods and Fruits, a company that makes a unique banana flour that is used for baking, making baby food, and preparing ugali, a staple dish in Kenya. Muthomi, who also studied entrepreneurship and banana processing, says that coming up with his business idea was simple because his hometown of Meru is a center for banana growers and processors. Stawi Foods and Fruits benefited from the publicity and recognition that came after Muthomi won Jithihada, Kenya's national business plan competition, beating out 3,439 other business ideas. Getting into business in Kenya was not easy, however; Muthomi says getting necessary permits and licenses for a food business from various government entities is time-consuming and “tiresome.” Despite facing challenges, Stawi Foods and Fruits, which employs five people, reached its breakeven point in less than one year, and Muthomi is reinvesting profits into the company to fuel its growth. The determined entrepreneur already has his sights set on exporting his company's banana flour to other African nations and eventually other continents. When asked what advice he could offer to other aspiring entrepreneurs, Muthomi recommends that they should not wait for conditions to be perfect before they launch their businesses; instead, they should start with whatever resources they have and grow from there.⁹ ■

Wherever they may choose to launch their companies, these business builders continue to embark on one of the most exhilarating—and frightening—adventures ever known: launching a business. It's never easy, but it can be incredibly rewarding, both financially and emotionally. It can be both thrilling and dangerous, like living life without a safety net. Still, true entrepreneurs see owning a business as the real measure of success. Indeed, entrepreneurship often provides the only avenue for success to those who otherwise might have been denied the opportunity.

Who are these entrepreneurs, and what drives them to work so hard with no guarantee of success? What forces lead them to risk so much and to make so many sacrifices in an attempt to achieve an ideal? Why are they willing to give up the security of a steady paycheck working for someone else to become the last person to be paid in their own companies? This chapter will examine the entrepreneur, the driving force behind the U.S. economy.

What Is an Entrepreneur?

An entrepreneur is one who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying significant opportunities and assembling the necessary resources to capitalize on them. Although many people come up with great business ideas, most never act on their ideas. Entrepreneurs do. In his 1911 book *The Theory of Economic Development*, economist Joseph Schumpeter wrote that entrepreneurs are more than just business creators; they are change agents in society. The process of creative destruction, in which entrepreneurs create new ideas and new businesses that make existing ones obsolete, is a sign of a vibrant economy. Although this constant churn of businesses—some rising, others sinking, new ones succeeding, and many failing—concerns some people, in reality it is an indication of a healthy, growing economic system that is creating new and better ways of serving people's needs and improving their quality of life and standard of living. Schumpeter compared the list of leading entrepreneurs to a popular hotel's guest list: always filled with people but rarely the same ones.¹⁰

High levels of entrepreneurial activity translate into high levels of business formation and destruction and make an economy more flexible and capable of adapting to structural changes in the competitive landscape. One reason the U.S. economy has been so successful over time is the constant churn that results from the rapid pace at which entrepreneurs create new businesses, destroy old ones, and upend entire industries with their creativity and ingenuity. Entrepreneurs are important change agents in the global economy, uprooting staid industries with fresh new business models that spot market opportunities and deliver the products and services customers want.



ENTREPRENEURIAL PROFILE: Jennifer Hyman and Jenny Fleiss: Rent the Runway

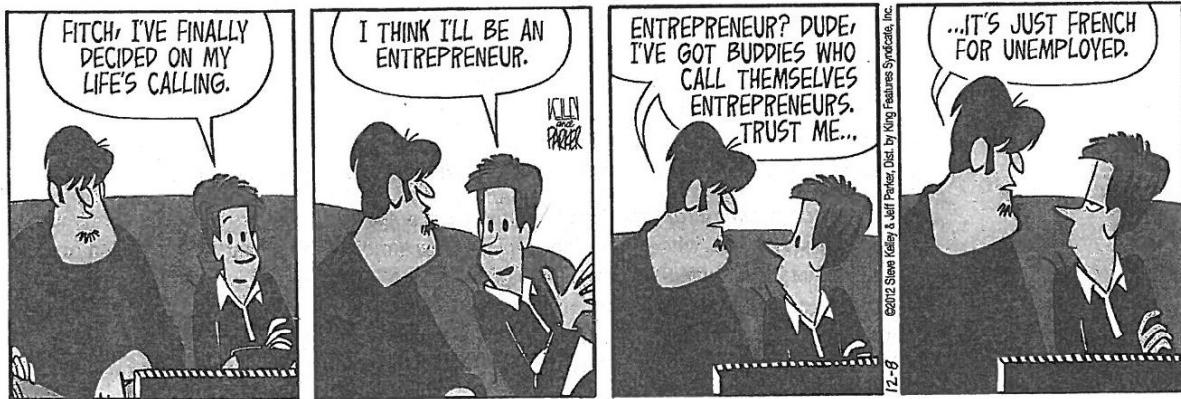
While in college, Jenn Hyman came up with the idea for a designer clothing rental business, Rent the Runway, that would disrupt the fashion industry after she witnessed one of her sister's "closet full of clothes, but nothing to wear" moments during Thanksgiving break. When she returned to school, she shared her idea with a suitemate, Jenny Fleiss, and the two collegiate entrepreneurs launched the company that rents high-end, designer clothing, accessories, and jewelry to customers at a fraction of the regular retail price. To test their business model (think "Netflix meets high fashion"), they used their savings to purchase 100 dresses and set up a pop-up shop on campus that proved to be a hit. The shop's success convinced the entrepreneurial pair that their business idea was valid and led them to conduct focus groups with more than 1,000 women, which gave them valuable insight into refining their business model and pricing strategy. Since starting Rent the Runway in 2009, Hyman and Fleiss have raised nearly \$55 million in four rounds of financing from a "who's who" list of venture capital firms and assembled an inventory of tens of thousands of dresses from more than 170 designers, such as Nicole Miller, Vera Wang, Versace, and Dolce and Gabbana. Customers go online, select the dress they want, enter their size (a backup size comes free), and specify the rental date; returns are as easy as dropping the dress into a prepaid return envelope. "We deliver Cinderella moments," says Hyman. Rent the Runway, which became cash-flow positive in less than one year, now has more than 3 million members, and financial experts estimate its value at \$240 million.¹¹ ■

LO2

Describe the entrepreneurial profile.

entrepreneur

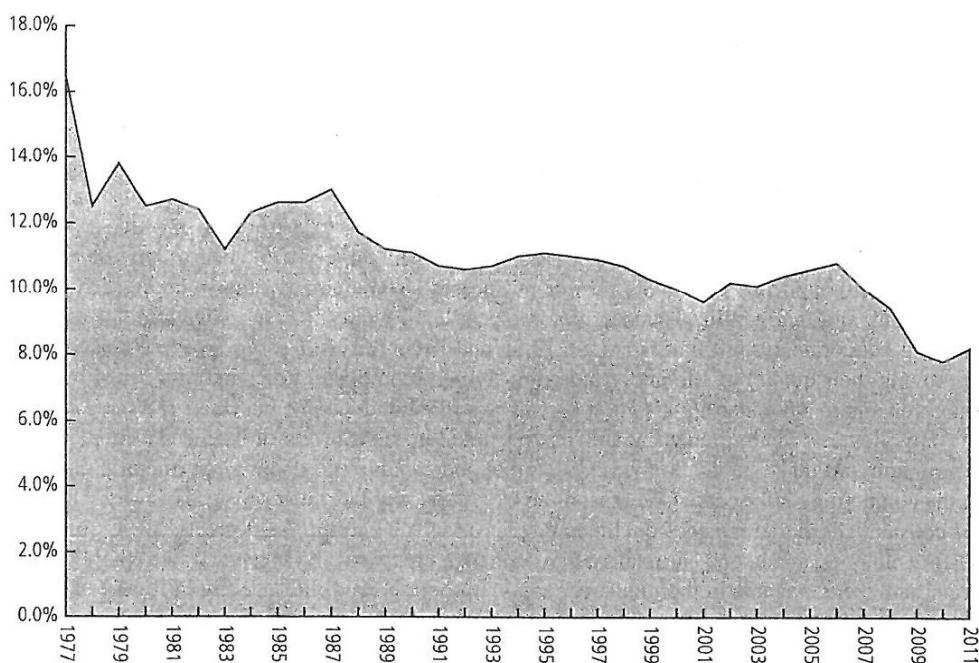
one who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying significant opportunities and assembling the necessary resources to capitalize on them.



Steven Kelly and Jeff Parker, Dustin, King Features Syndicate

FIGURE 1.2
Percentage of Start-Up Companies in the United States

Source: *Business Dynamics Statistics Data Tables: Firm Characteristics, U.S.* Department of Commerce, U.S. Census Bureau, 2013, http://www.census.gov/ces/dataproducts/bds/data_firm.html.



Unfortunately, in the United States, the percentage of private companies that are start-up businesses (those companies that are less than one year old), the primary source of the economy's healthy churn, has been declining since the late 1970s (see Figure 1.2). Although many entrepreneurs fail, some more than once, those who succeed earn the satisfaction of creating value for their customers and wealth for themselves—all while working at something they love to do. Some of them create companies that change the world.

Researchers have invested a great deal of time and effort over the last few decades trying to paint a clear picture of “the entrepreneurial personality.” Although these studies have identified several characteristics entrepreneurs tend to exhibit, none of them has isolated a set of traits required for success. We now turn to a brief summary of the entrepreneurial profile.¹²

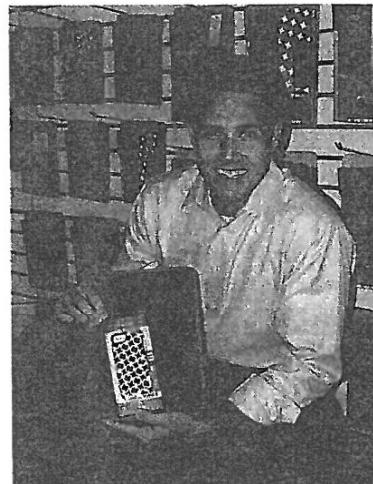
1. *Desire for responsibility.* Entrepreneurs feel a deep sense of personal responsibility for the outcome of ventures they start. They prefer to be in control of their resources, and they use those resources to achieve self-determined goals. Deborah Sullivan, a lifelong serial entrepreneur realized at the age of 16 that she did not want to spend her life working for others. “You’re stuck by all of these different rules [when you work for someone else],” she says. “I wanted to create something for myself.” Sullivan has been an entrepreneur since she was 22 years old, when she launched a hair salon and spa in Atlanta, Georgia. In 2012, at the age of 60, Sullivan started Consign Werks, a consignment shop in Greenville, South Carolina, which she says has been the most gratifying of her entrepreneurial ventures perhaps because she knew almost nothing about the business until she spent months researching and learning everything she could about consignment shops.¹³
2. *Preference for moderate risk.* Entrepreneurs are not wild risk takers but are instead calculated risk takers. Lee Lin, who left his job at a large investment bank to start RentHop, an online service that helps renters find the ideal apartment in New York City, says that entrepreneurs who risk everything typically do not stay in business very long. Lin says that to minimize risk, he manages his company’s finances carefully and focuses on profitable growth opportunities.¹⁴ A study of the founders of the businesses listed as *Inc.* magazine’s fastest-growing companies found no correlation between risk tolerance and entrepreneurship. The common belief that entrepreneurs prefer taking big risks is a myth. Unlike “high-rolling, riverboat gamblers,” entrepreneurs rarely gamble. Their goals may appear to be high—even impossible—in others’ eyes,

but entrepreneurs see the situation from a different perspective and believe that their goals are realistic and attainable.



ENTREPRENEURIAL PROFILE: Patrick Mish: M-Edge Accessories

Patrick Mish took his father's advice to take the safe route by earning an engineering degree and getting a stable job. After earning a PhD in aero-acoustics from Virginia Polytechnic Institute and State University, Mish went to work for Northrop Grumman, where he was a member of the team that was responsible for creating the next generation of super-stealthy destroyers, but he wasn't happy. Mish spent his days in a cubicle dealing with corporate bureaucracy but dreamed of owning a business of his own. He and his wife, Devon, had purchased one of the first e-readers on the market and discovered that there were very few accessories to enhance its use. That's when the idea to start a business that sells e-reader accessories came to him. Mish began contacting manufacturers with his designs and found one that could produce quality products and was willing to make them in the small quantities Mish ordered at first. Although he was not yet ready to take the plunge into full-time entrepreneurship, Mish began selling a small selection of accessories online after work. Realizing that he needed sales experience, Mish left his engineering job and became a sales representative for a small information technology firm before leaving to operate M-Edge full time. Mish says that by then, starting a business was not a huge risk because he had taken the necessary steps to prepare himself to be a successful entrepreneur. Today, M-Edge generates more than \$37 million in annual sales of e-book accessories and has appeared on *Inc.* magazine's list of fastest-growing companies.¹⁵ ■



Courtesy of M-Edge Accessories

Like Patrick Mish, entrepreneurs usually spot opportunities in areas that reflect their passions, knowledge, backgrounds, or experiences, which increases their probability of success. Successful entrepreneurs are not as much *risk takers* as they are *risk eliminators*, systematically removing as many obstacles to the successful launch of their ventures as possible. One of the most successful ways of eliminating risks is to build a viable business plan for a venture.

3. ***Self-reliance.*** Entrepreneurs must fill multiple roles to make their companies successful, especially in the early days of a start-up. Because their resources usually are limited, they end up performing many jobs themselves, even those they know little about. Yet, entrepreneurs demonstrate a high level of self-reliance and do not shy away from the responsibility for making their businesses succeed. Perhaps that is why many entrepreneurs persist in building businesses even when others ridicule their ideas as follies.
4. ***Confidence in their ability to succeed.*** Entrepreneurs typically have an abundance of confidence in their ability to succeed and are confident that they chose the correct career path. Entrepreneurs' high levels of optimism may explain why some of the most successful entrepreneurs have failed in business—often more than once—before finally succeeding.



ENTREPRENEURIAL PROFILE: David Steinberg: XL Marketing

In 2004, David Steinberg's company, InPhonic, a business that sold mobile phones and services, made it to the top of *Inc.* magazine's list of the fastest-growing small companies in the United States. By 2007, however, the company's fast growth outstripped its cash flow, and InPhonic filed for Chapter 11 bankruptcy before Steinberg sold it to an investment firm. While he was closing the InPhonic chapter of his entrepreneurial experience, Steinberg was launching another company, XL Marketing, which provides lead-generation and customer-acquisition services for other businesses. With his second venture, Steinberg learned from the mistakes he made with InPhonic, securing adequate financing, managing carefully XL Marketing's financial resources, and controlling the company's growth rate. Like Steinberg, smart entrepreneurs recognize that their failures can be the source of some of the lessons that lead them to their greatest successes.¹⁶ ■

5. ***Determination.*** Some people call this characteristic "grit," the ability to focus intently on achieving a singular, long-term goal. Studies show that grit is a reliable predictor of achievement and success, whether the goal involves launching a successful business,

winning the Scripps National Spelling Bee, or excelling in professional sports.¹⁷ (One recent study concludes that top performance in the National Football League's Combine, in which players who are entering the league's draft perform short physical and mental tasks, has no consistent statistical relationship to subsequent performance in the league.) Successful entrepreneurs demonstrate high levels of determination, especially in the face of challenging circumstances. "Failure was not an option for me," says Alexander Gomez, founder of New Wave Surgical, a highly successful company that designs, patents, and markets laparoendoscopic medical devices used in surgery. "I had everything on the line. It was all or nothing for me."¹⁸ Research by Robert Fairlie of the University of California, Santa Cruz, shows that the Great Recession, which began in late 2007, spawned a surge in entrepreneurship in the same types of businesses typically launched in prosperous times.¹⁹ Perhaps that explains why 57 percent of the *Fortune* 500 companies were launched in either a recession, a "bear" market, or both.²⁰



ENTREPRENEURIAL PROFILE: Romesh Wadhwani: Aspect Development Five years after starting a canteen with several other students on the campus of Mumbai's Indian Institute of Technology in 1964 with an investment of 100 rupees (about \$10), Romesh Wadhwani arrived in the United States with just \$3.48 in his pocket. He earned a master's degree and a PhD in bioengineering from Carnegie Mellon University in Pittsburgh, Pennsylvania, and renewed his passion for entrepreneurship by launching a company that provided computer-based security and energy management services during the short recession of 1991. Wadhwani convinced an angel investor to invest \$30,000 and pitched his idea to 125 venture capital firms before he found one that was willing to finance a business started by an entrepreneur with no experience. Just nine years later, Wadhwani sold Aspect Development to i2 technologies for \$9.3 billion. Wadhwani says it never occurred to him to give up, and ultimately his tenacity paid off.²¹ ■

6. **Desire for immediate feedback.** Entrepreneurs enjoy the challenge of running a business, and they like to know how they are doing and are constantly looking for feedback. The feedback they receive from their businesses drives them to set higher standards of performance for their companies and themselves.²²
7. **High level of energy.** Entrepreneurs are more energetic than the average person. That energy may be a critical factor given the incredible effort required to launch a start-up company. Long hours and hard work are the rule rather than the exception, and the pace can be grueling. According to a recent survey by Bank of America, 72 percent of small business owners work more than 40 hours per week.²³ Another recent survey by Sage Software reports that 37 percent of business owners work more hours per week than they did just five years ago.²⁴ Will Schroter, an entrepreneur who has launched numerous companies, including Go Big Network, an online community for entrepreneurs, says that he works at 1:30 in the morning because he is the founder of a start-up and start-up founders often don't have time to sleep because their work is never-ending. He laughs, adding that he can catchup on his sleep in several years when his company has grown and matured and has levels of managers to handle the immense workload that he currently manages himself.²⁵
8. **Future orientation.** Entrepreneurs have a well-defined sense of searching for opportunities. They look ahead and are less concerned with what they did yesterday than with what they might do tomorrow. Not satisfied to sit back and revel in their success, real entrepreneurs stay focused on the future. A year after William Roetzheim's software company, Marotz, landed on *Inc.* magazine's list of the 500 fastest-growing companies in the United States, he sold it and launched another company, Cost Xpert Group, which sells a cost-estimating tool he had developed at Marotz. When Cost Xpert Group reached about \$5 million in annual sales, he sold it. "I always plan to sell when I get to \$5 million," says Roetzheim. "I like starting companies. I don't want to run something big." Roetzheim recently started another company, Level 4 Ventures, which provides project management software. His plan for the future? Expand Level 4 Ventures to \$5 million in sales, sell it, and start another company.²⁶

Entrepreneurs see potential where most people see only problems or nothing at all, a characteristic that often makes them the objects of ridicule (at least until their ideas become huge successes). Whereas traditional managers are concerned with managing available resources, entrepreneurs are more interested in spotting and capitalizing on *opportunities*. In the United States, 59 percent of those engaged in entrepreneurial activity are opportunity entrepreneurs, people who start businesses because they spot an opportunity in the marketplace, compared to necessity entrepreneurs, those who start businesses because they cannot find work any other way.²⁷



ENTREPRENEURIAL PROFILE: AJ Forsythe and Anthony Martin: iCracked

After California Polytechnic State University student AJ Forsythe cracked the screen on his iPhone for the sixth time in just 18 months, the long-time tinkerer decided to fix his phone himself using parts he purchased on eBay. A few hours later, with his phone as good as new, Forsythe realized he had discovered a significant business opportunity and decided to launch iCracked, an iPhone, iPad, and iPod repair service, from his dorm room to serve other Cal Poly students. The business grew quickly, and Forsythe teamed up with fellow students Leslee Lambert and Anthony Martin to turn iCracked into a full-time business. The entrepreneurs reworked their business model, choosing to train self-employed technicians, who would buy parts from iCracked to repair their customers' devices. The young entrepreneurs took a chance and used credit cards to finance iCracked, often rolling up credit card balances of \$30,000 to \$40,000 per month. Today, iCracked generates \$1.4 million in annual sales and has thousands of satisfied customers and nearly 350 technicians across the United States and in 11 other countries. To give back to the community, the entrepreneurs recently opened a retail store in a renovated hotel in Long Beach, California, that employs adult foster youth and provides them with a safe place to live. Forsythe says he and his cofounders have had so much fun launching iCracked that they cannot wait to see what their business brings next.²⁸ ■

Serial entrepreneurs, those who repeatedly start businesses and grow them to a sustainable size before striking out again, push this characteristic to the maximum. The majority of serial entrepreneurs are *leapfroggers*, people who start a company, manage its growth until they get bored, and then sell it to start another. A few are *jugglers* (or *parallel entrepreneurs*), people who start and manage several companies at once. Serial entrepreneurs instinctively know that the process of creating a company takes time and choose to pursue several ideas at the same time.²⁹ *The Entrepreneur State of Mind* study reports that 54 percent of business owners are serial entrepreneurs.³⁰ “The personality of the serial entrepreneur is almost like a curse,” admits one entrepreneurial addict. “You see opportunities every day.”³¹ At age 81, serial entrepreneur David Gilmour says he has been trying to retire for four decades, but opportunities just kept coming his way. “None of my start-ups were based on searching for something to do,” claims Gilmour, who has founded 11 companies (some of which failed) that range from a stereo maker and a luxury resort to bottled water and a gold mine. “I get the vision and the passion for the next project,” he says. “It must see the light of day.”³²

It’s almost as if serial entrepreneurs are addicted to launching businesses. “Starting a company is a very imaginative, innovative, energy-driven, fun process,” says Dick Kouri, who has started 12 companies in his career and now teaches entrepreneurship at the University of North Carolina. “Serial entrepreneurs can’t wait to do it again.”³³

9. **Skill at organizing.** Building a company “from scratch” is much like piecing together a giant jigsaw puzzle. Entrepreneurs know how to put the right people together to accomplish a task. Effectively combining people and jobs enables entrepreneurs to transform their visions into reality. “Great entrepreneurship is in the execution,” says Eric Paley, an entrepreneur-turned-venture-capitalist.³⁴
10. **Value of achievement over money.** One of the most common misconceptions about entrepreneurs is that they are driven wholly by the desire to make money. To the contrary, *achievement* seems to be entrepreneurs’ primary motivating force; money is simply a way of “keeping score” of accomplishments—a symbol of achievement. What drives

opportunity entrepreneurs
entrepreneurs who start businesses because they spot an opportunity in the marketplace.

necessity entrepreneurs
entrepreneurs who start businesses because they cannot find work any other way.

serial entrepreneurs
entrepreneurs who repeatedly start businesses and grow them to a sustainable size before striking out again.

entrepreneurs goes much deeper than just the desire for wealth. Economist Joseph Schumpeter claimed that entrepreneurs have “the will to conquer, the impulse to fight, to prove oneself superior to others, to succeed for the sake, not of the fruits of success, but of success itself.” Entrepreneurs experience “the joy of creating, of getting things done, or simply of exercising one’s energy and ingenuity.”³⁵

Other characteristics that entrepreneurs tend to exhibit include the following:

High degree of commitment. Entrepreneurship is hard work, and launching a company successfully requires total commitment from an entrepreneur. Business founders often immerse themselves completely in their companies. Most entrepreneurs must overcome seemingly insurmountable barriers to launch a company and keep it growing. That requires commitment and fortitude. Oleg Firer, who at age 12 emigrated to the United States from Russia with his family, cofounded Unified Payments when he was 29. The debit and credit card processing company handles \$10 billion in transactions for more than 100,000 merchants annually. Many people dream of launching their own companies; entrepreneurs such as Firer muster the commitment to actually do it. Firer says that the primary reasons for his success are his refusal to accept “no” as an answer and his “all-in” attitude toward his business.³⁶

Tolerance for ambiguity. Entrepreneurs tend to have a high tolerance for ambiguous, ever-changing situations, the environment in which they most often operate. This ability to handle uncertainty is critical because these business builders constantly make decisions using new, sometimes conflicting information gleaned from a variety of unfamiliar sources. Based on his research, entrepreneurial expert Amar Bhidé says that entrepreneurs exhibit a willingness to jump into ventures even when they cannot visualize what the ultimate outcome may be.³⁷

Creativity. One of the hallmarks of entrepreneurs is creativity. They constantly come up with new product or service ideas, unique ways to market their businesses, and innovative business models. Their minds are constantly at work developing unique business models, services, and products. Davide Vigano, Mario Esposito, and Maurizio Macagno, founders of Heapsylon, focused their creativity on developing practical wearable technology designed to improve people’s lives. One of the products their company has created is Sensoria fitness socks, which are made from a proprietary fabric equipped with sensors and include an electronic anklet that reads signals from the sensors. The anklet transmits information to the runner’s smart phone via an app that shows his or her speed, number of steps, distance traveled, and calories burned. The sophisticated device also tracks the runner’s cadence, foot-landing technique, and weight distribution on the foot. If Sensoria detects a problem, such as heel striking or overpronating, it offers the runner real-time verbal coaching cues to remedy it, allowing the runner to avoid injuries.³⁸ You will learn more about the creative process and how to stimulate entrepreneurial creativity in Chapter 2.

Flexibility. One hallmark of true entrepreneurs is their ability to adapt to the changing needs and preferences of their customers and the changing demands of the business environment. In this rapidly changing global economy, rigidity often leads to failure. Successful entrepreneurs learn to be masters of improvisation, reshaping and transforming their businesses as conditions demand. Research by Saras Sarasvathy, a professor at the University of Virginia’s Darden School of Business, shows that entrepreneurs excel at effectual reasoning, which “does not begin with a specific goal.” Instead, says Sarasvathy, “it begins with a given set of means and allows goals to emerge contingently over time from the varied imagination and diverse aspirations of the founders and the people they interact with. Effectual thinkers are like explorers setting out on voyages into uncharted waters.” Entrepreneurs set goals, but their goals are flexible. Sarasvathy compares entrepreneurs to “iron chefs,” who prepare sumptuous meals when handed a hodgepodge of ingredients and given the task of using their creativity to come up with an appetizing menu. Corporate CEOs, on the other hand, develop a plan to prepare a specific dish and then create a process for making that dish in the most efficient, expeditious fashion.³⁹

Resourceful. Entrepreneurs excel at getting the most out of the resources that are available, however limited they may be. They are skilled at bootstrapping, a strategy that involves conserving money and cutting costs during start-up so that entrepreneurs can pour every available dollar into their businesses.



ENTREPRENEURIAL PROFILE: Ryan Barr: WhippingPost.com After holding a series of uninspiring jobs, Ryan Barr, a musician, started an online company, WhippingPost.com, that markets high-quality leather products, such as guitar cases, guitar straps, tote bags, and “picker’s wallets.” Like many cash-starved entrepreneurs, Barr used bootstrapping to launch and grow his company. He would save enough money, buy some leather, and make a prototype. Once he had saved enough money, Barr visited a leather manufacturer in Leon, Mexico, to whom he outsourced production of the company’s products. Priced at \$825, Barr’s initial product, guitar cases, appealed to a limited audience, so he came up with the idea of a picker’s wallet, one that has a slot designed specifically to hold a guitar pick so that guitar players no longer have to resort to their standard practice of storing picks between their credit cards. Barr sent press releases about his picker’s wallet to numerous fashion, design, and music blogs, which generated several posts and good publicity. Priced between \$31 and \$37, the picker’s wallet is now the company’s best-selling item and has helped WhippingPost.com surpass \$200,000 in annual sales.⁴⁰ ■

bootstrapping
a strategy that involves conserving money and cutting costs during start-up so that entrepreneurs can pour every available dollar into their businesses.

Willingness to work hard. Entrepreneurs work hard to build their companies, and there are no shortcuts around the workload. In his book *Outliers: The Story of Success*, Malcolm Gladwell observes that the secret to success in business (or sports, music, art, or any other field) is to invest at least 10,000 hours practicing and honing one’s skills. “What’s really interesting about this 10,000-hour rule is that it applies virtually everywhere,” says Gladwell. For instance, Mark Cuban, billionaire owner of the Dallas Mavericks of the National Basketball Association and founder of Broadcast.com, the leading provider of multimedia and streaming on the Internet (which he sold to Yahoo! for \$5.7 billion), says he worked for seven years without taking a day off to launch his first business, MicroSolutions, a computer systems integrator. Cuban spent his days making sales calls, and at night and on weekends he studied and practiced to learn everything he could about computers.⁴¹ Entrepreneurs often capitalize on opportunities through sheer amounts of hard work through which they test, invalidate, test again, and finally validate their ideas. A great idea may come to an entrepreneur in a single moment, but building a successful business from that idea takes time and lots of hard work.⁴²

Tenacity. Obstacles, obstructions, and defeat typically do not dissuade entrepreneurs from doggedly pursuing their visions. They simply keep trying. Hurricane Sandy nearly wiped out Jackie Summers’s company, Jack from Brooklyn, which produces a unique artisanal alcoholic beverage called sorel in an old warehouse in Brooklyn’s historic Red Hook district. Despite the loss of product, equipment, and sales, Summers persevered and rebuilt his business. Summers’s spirit of tenacity, willingness to concentrate on a single unsurmountable task each day, and accomplishment of each task enabled him to recover from the devastating loss.⁴³ Noting the obstacles that entrepreneurs must overcome, economist Joseph Schumpeter argued that success is “a feat not of intellect but of will.” Rick Smolan quit his job as a magazine photojournalist to launch A Day in the Life Inc., a company that publishes eye-popping coffee table books that feature photographs by professional photographers who swarm a particular country and capture its essence in 24-hour marathon photo sessions. “I met with 35 publishers,” says Smolan. “Every single one of them told me what an incredibly stupid idea A Day in the Life was.” Smolan persisted, and his company went on to produce 11 books that sold more than 5 million copies before he sold it to start another business.⁴⁴

What conclusion can we draw from the volumes of research conducted on the entrepreneurial personality? Entrepreneurs are not of one mold; no one set of characteristics can predict who will become entrepreneurs and whether they will succeed. Indeed, *diversity* seems to be a central characteristic of entrepreneurs. One astute observer of the entrepreneurial personality explains, “Business owners are a culture unto themselves—strong, individualistic people who

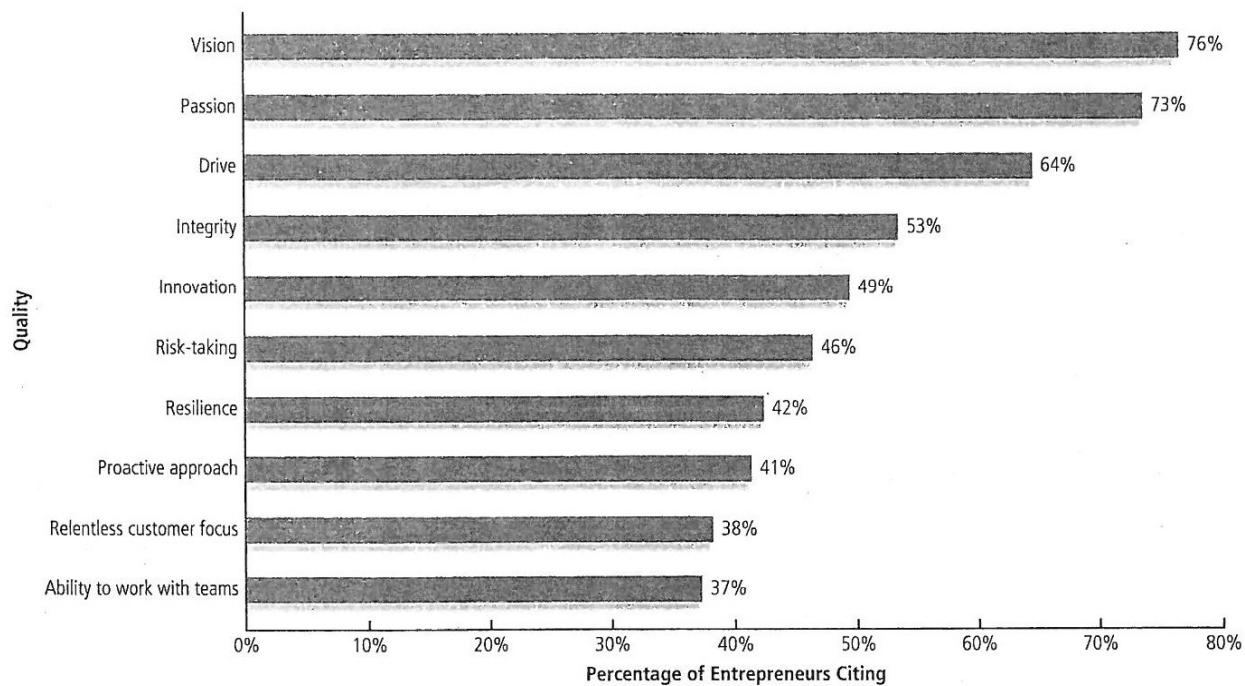


FIGURE 1.3
Most Important Qualities of an Entrepreneur

Source: *Nature or Nurture: Decoding the DNA of the Entrepreneur*, Ernst & Young, 2011, p. 17, <http://www.ey.com/GL/en/Services/Strategic-Growth-Markets/Nature-or-nurture--Decoding-the-DNA-of-the-entrepreneur--Entrepreneurs-share-core-trait>.

scorn convention—and nowadays, they’re driving the global economy.”⁴⁵ Indeed, entrepreneurs tend to be nonconformists, a characteristic that seems to be central to their views of the world and to their success.

As you can see from the examples in this chapter, *anyone*, regardless of age, race, gender, color, national origin, or any other characteristic, can become an entrepreneur (although not everyone should). There are no limitations on this form of economic expression. Entrepreneurship is not a mystery; it is a practical discipline. Entrepreneurship is not a genetic trait; it is a skill that most people can learn. It has become a very common vocation. The editors of *Inc.* magazine claim, “Entrepreneurship is more mundane than it’s sometimes portrayed. . . . You don’t need to be a person of mythical proportions to be very, very successful in building a company.”⁴⁶ Figure 1.3 summarizes the qualities that company founders say are most important to entrepreneurs.

LO3A

Describe the benefits of entrepreneurship.

The Benefits of Entrepreneurship

Surveys show that owners of small businesses believe they work harder, earn more money, and are more satisfied than if they worked for someone else. Before launching any business venture, every potential entrepreneur should consider the benefits of small business ownership.

Opportunity to Create Your Own Destiny

Owning a business provides entrepreneurs the independence and the opportunity to achieve what is important to them. Entrepreneurs want to “call the shots” in their lives, and they use their businesses to make that desire a reality. “Owning your own business means you have some say in deciding what your destiny is going to be,” says Kathy Mills, founder of Strategic Communications, a highly successful information technology company in Louisville, Kentucky.⁴⁷

For many entrepreneurs, living where and how they choose is one of the principal benefits of controlling their destinies through business ownership.



ENTREPRENEURIAL PROFILE: Alan Blado: Liquid Descent

Descent Alan Blado had a successful career as a stock-broker in Colorado Springs, Colorado, but found his work unsatisfying. Nor did he enjoy wearing a suit to work every day. Blado had worked as a whitewater rafting guide in college and loved the thrill and beauty of being on the river. Several prime rivers, including the Colorado River and the Eagle River, were nearby, and Blado decided to open his own whitewater rafting business. Blado bootstrapped his business, keeping his job and living with his parents for a few years so that he could save enough money to get into business. With the money he saved, Blado purchased a failed rafting business, renamed it Liquid Descent, and began marketing rafting trips with an emphasis on safety and customer satisfaction. Now with two Colorado locations in Idaho Springs and Kremmling, Blado works seven days a week during the busy summer season. Blado does not consider his calling to be work because he spends most of his days on the water in beautiful places with his clients doing what he loves.⁴⁸ ■



Courtesy of Liquid Descent

- Like Alan Blado, entrepreneurs reap the intrinsic rewards of knowing that they are the driving forces behind their businesses.

Opportunity to Make a Difference

Increasingly, entrepreneurs are starting businesses because they see an opportunity to make a difference in a cause that is important to them. Known as **social entrepreneurs**, these business builders seek innovative solutions to some of society's most vexing problems. They use their skills not only to create profitable business ventures but also to achieve social and environmental goals for society as a whole. Their businesses often have a triple bottom line that encompasses economic, social, and environmental objectives. These entrepreneurs see their businesses as mechanisms for achieving social goals that are important to them as individuals. Whether it is providing low-cost, sturdy housing for families in developing countries or establishing a recycling program to preserve Earth's limited resources, these entrepreneurs are finding ways to combine their concerns for social issues and their desire to earn a good living.



ENTREPRENEURIAL PROFILE: Jessica Matthews and Julia Silverman: Uncharted Play

Uncharted Play Jessica Matthews and Julia Silverman drew the inspiration for their business, Uncharted Play, from their travels abroad during college. Everywhere they went, even in the most poverty-stricken areas, they saw children playing soccer, an observation that led them to create the Soccket ball, an energy-harnessing soccer ball, as part of an engineering class for non-engineers. Their goal was to create a for-profit company whose goal is to improve the lives of the 1.4 billion people around the world who have no access to electricity. The Soccket ball is a regulation-size soccer ball that contains a motion-activated chargeable battery pack surrounded by a foam core and acts as a portable generator, capturing and storing energy during play that people can use later to operate lights, cell phones, mini-refrigerators, and other devices. The Soccket ball has a small flip cap that covers an electric socket into which users can plug various devices. For every 15 minutes of play, the Soccket ball can power an LED lamp for three hours. "We're also thinking of how everything from basketballs to volleyballs can be useful," Matthews says. "Making a difference doesn't have to be serious and boring. It can be as simple and fun as playing soccer."⁴⁹ ■

social entrepreneurs
entrepreneurs who use their skills not only to create profitable businesses but also to achieve economic, social, and environmental goals for the common good.



Evan Agostini/AP Photo

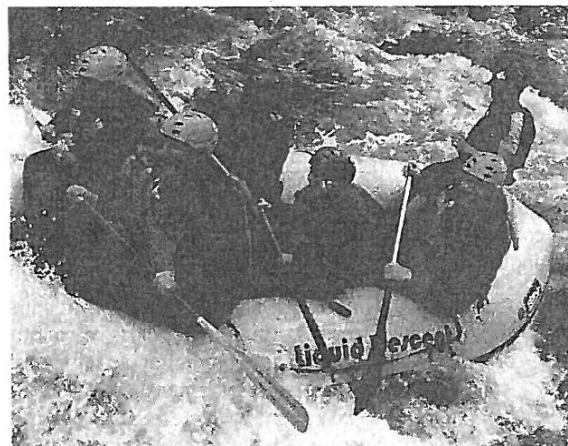
Matthews and Silverman are just two of millions of social entrepreneurs who have started for-profit businesses with a broader goal of making the world a better place to live.

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Courtesy of Liquid Descent

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Evan Agostini/AP Photo

Matthews and Silverman are just two of millions of social entrepreneurs who have started for-profit businesses with a broader goal of making the world a better place to live.



You Be the Consultant

Decoding the DNA of the Entrepreneur

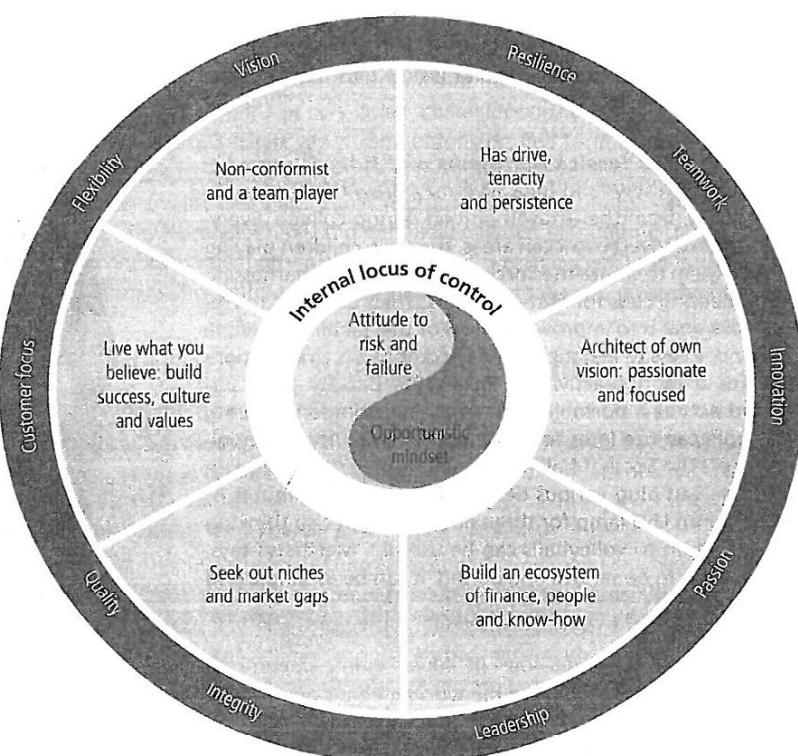
Management consulting firm Ernst & Young has developed the following model of an entrepreneur:

Nucleus. At the center of the model lie the entrepreneur's complementary characteristics of an opportunistic mindset and an attitude of tolerance of risk and failure.

Opportunistic mindset. One of the hallmarks of entrepreneurs is their ability to spot opportunities where others do not. They know that although disruptions create problems, they also create opportunities for those who are prepared to capitalize on them. Avid beekeepers Tim Dover and Susan Gardner turned their hobby into a bee supply business that they operated out of their homes and then into a retail store in tiny Traveler's Rest, South Carolina, when a new state law required beekeepers who produce more than 400 gallons of honey per year for resale to process their honey in a Department of Agriculture-approved honey house. "That's when we decided to turn our little home-based hobby business into a store," says Gardner. The entrepreneurs launched Carolina Honey Bee Company, purchased a building in the town's revitalized business district, and converted it into a state-approved honey house that includes retail space for beekeeping supplies and local honey for nearby residents and area tourists. Although Gardner and Dover are not yet drawing salaries, Carolina Honey Bee Company is generating positive cash

flow. "We started this business on a shoestring budget," says Dover, "and we're at a point that it's funding its own growth." Surging interest in both beekeeping and in local food products are fueling their company's growth. The entrepreneurs' goal is to have multiple stores in several states within five years. "We want it to be a brand," says Dover.

Tolerance of risk and failure. Most people are risk averse. Most entrepreneurs don't take extraordinary risks, but they accept risk as a natural part of achieving big goals. Lyn Strong studied graphic design and painting at Western Carolina University in Cullowhee, North Carolina, where she took a class on jewelry making on a whim. She was captivated by the medium and, after graduation, purchased jewelry-making equipment to set up a studio in her small apartment. To learn the industry, she also took a job at a local jewelry store and worked her way into the store's workshop. As her skills improved, Strong decided to go out on her own, selling her hand-crafted jewelry at arts and crafts shows and eventually opening a retail store in Greenville, South Carolina. Customers appreciate her highly detailed pieces, which feature precious gemstones, silver, platinum, and gold, because of their "everyday wearability," she says. Recently, Strong made significant investments in technology and equipment so that she can produce pieces faster and expand her customer base nationally



You Be the Consultant (continued)

and internationally. "I've stood out on a limb most of my life," says the successful entrepreneur. "You have to take risks to be successful, and I don't think you always are."

Inner Ring. The inner ring of the model shows six characteristics that are integral parts of the entrepreneurial personality:

Drive, tenacity, and persistence. To bring their business ideas to life, entrepreneurs must demonstrate drive, tenacity, and persistence. Entrepreneurs must overcome countless obstacles on their way to building successful businesses.

Architect of own vision; passionate and focused. As teens, copreneurs Larkin and Mark Hammond worked at fast-food restaurants before going to college and taking corporate jobs in California. For years, the Hammonds dreamed of owning a restaurant. Finally, they decided to leave their corporate jobs behind, sell everything they owned, and move to the East Coast, where they purchased a small lakeside restaurant in Lake Lure, North Carolina. Risky? "That's where Larkin comes in," laughs Mark. "She has a lot of confidence." The Hammonds quizzed all of their customers about their favorite dishes, items they would like to see on the menu, and décor ideas and integrated everything they learned into revamping the restaurant. Within three years, Larkins on the Lake was earning a profit and providing the couple with salaries that exceeded their former corporate paychecks. Fourteen years after they started, the entrepreneurial couple owns six restaurants and a catering business, but both of them agree that success is doing something that they love together.

Build an ecosystem of finance, people, and know-how. Smart entrepreneurs know that they cannot do everything themselves and build a team of professionals to nurture and protect the business. While attending the University of South Carolina, Allen Stephenson dreamed of starting a business. Having operated a successful lawn care business in high school, Stephenson had a head start on the road to entrepreneurship. His inspiration came one day as a result of a semester he spent abroad in Italy, where he saw firsthand fine clothing made with attention to detail; he took a pair of scissors to his collection of polo shirts, cut away what he considered to be the best features of each one, and stitched them back together into a model "Frankenstein" shirt. He spent the next year working with several textile industry veterans, perfecting his design for the perfect polo shirt and having samples made by 11 factories in four countries. Stephenson launched Southern Tide, ordered 5,500 shirts, and began calling on independent men's shops to sell them. Most shop owners declined, which prompted him to start giving the owners a few shirts to wear or to give to their best customers. "I started getting phone calls saying, 'We need more. We need more,'" he recalls. Sales accelerated quickly, and Stephenson made an important and selfless decision to bring in an experienced CEO, Jim Twining. "I was sure [the business] was going to work if I just kept working at it and getting the right people together," he says. "I knew it wouldn't work with what and who I alone knew at the

time." Twining led Southern Tide in a \$1.8 million round of equity financing and developed a strategic plan to guide its growth. Today, Southern Tide's product line has grown well beyond the perfect polo shirt to include pants, T-shirts, hats, belts, shoes, swimwear, and more and is sold in nearly 600 stores in 43 states and on its Web site. Many publications, including *Inc.* and *Forbes*, have recognized Stephenson's Southern Tide as one of the fastest-growing small companies in the United States.

Seek out market niches and gaps. Entrepreneurs are adept at finding lucrative niches and gaps in the market that large businesses often overlook. After graduating from Clemson University, Craig Pavlish, a fan of craft beers, worked with his partners, who were experienced brew masters, to open Growler Station (a growler is a special amber-colored container used to carry fresh craft beer home from a brewery), a craft brewery in Greenville, South Carolina. With a vibrant downtown district filled with restaurants, performance venues, and shops; a growing population of upscale, educated young people; and a large international community, Greenville proved to be the ideal location for a niche business such as a craft brewery. "The trail has been blazed here in Greenville," says Pavlish. Growler Station's unique process and technology allows the small brewery to bottle beer in growlers so that customers can take it home, unlike typical growlers, which must be consumed immediately.

Live what you believe; build success, culture, and values. As you have seen, entrepreneurs create company cultures that reflect their values and belief systems. Entrepreneurs often build businesses that seek to achieve financial, social, and environmental goals that make their communities—and the world—better places to live.

Be a nonconformist and a team player. Entrepreneurs tend to be nonconformists, choosing to do things their own way. Just as many traditional managers would find the life of an entrepreneur unsettling, so too would entrepreneurs find the boundaries, rules, and traditions of corporate life stifling and boring. Yet successful entrepreneurs recognize the importance of being team players. They understand that accomplishing big goals requires a broad set of skills that no one person has. Sisters Sophie LaMontagne and Kallinis Berman were close growing up but went their separate ways after college. LaMontagne became a biotech expert, and Berman worked in the fashion industry. In 2007, the sisters reunited to realize a dream they had had since childhood: owning a bakery together. "We quit our jobs, borrowed our grandmother's cake recipes, and took a leap of faith," says LaMontagne. Today, the sisters are at the helm of Georgetown Cupcake, a bakery that has grown from a two-person shop outside of Washington, DC, to a 350-person operation with stores in New York City, Boston, Atlanta, and Los Angeles. "Having your sister as your business partner gives you a huge head start," says La Montagne. "I'm not saying it's easy, but if anything goes wrong, you know you've got your sister behind you."

Outer Ring. The model's outer ring includes many of the entrepreneurial traits discussed in this chapter, including

(continued)

You Be the Consultant (continued)

resilience, teamwork, innovation, passion, leadership, integrity, quality, customer focus, flexibility, and vision.

- How do the characteristics at the model's nucleus, opportunistic mindset and tolerance of risk and failure, fit together in the entrepreneur's mind?
- Work with a team of your classmates to interview at least one entrepreneur. Does he or she fit the model

described here? Explain, giving specific examples from your interview.

Sources: Based on "Nature or Nurture? Decoding the DNA of the Entrepreneur," Ernst & Young, 2011, pp. 14–21; Amy Clarke Burns, "The Buzz About Honey," *Greenville News*, January 20, 2013, pp. 1E–2E; Lilia Callum-Penso, "An Original by Design," *Greenville News*, October 14, 2012, pp. 1E–2E; Lilia Callum-Penso, "Feeding a Passion," *Greenville News*, November 11, 2012, pp. 1E–2E; Julie Savacool, "The Sweet Success of Sisters," *USA Weekend*, August 3–5, 2012, pp. 6–7; Amy Clarke Burns, "Riding the Tide," *Greenville News*, August 5, 2012, pp. 1E–2E; Lilia Callum-Penso, "Crafting a Culture," *Greenville News*, July 29, 2012, pp. 1E–2E.

Opportunity to Reach Your Full Potential

Too many people find their work boring, unchallenging, and unexciting. But not entrepreneurs! To them, there is little difference between work and play; the two are synonymous. Entrepreneurs' businesses become their instruments for self-expression and self-actualization. They know that the only boundaries on their success are those imposed by their own creativity, enthusiasm, and vision. Owning a business gives them a sense of empowerment. While Elizabeth Elting was in college, she worked in the translation industry, where she saw plenty of room for improvement. After she met Phil Shawe at New York University's Stern School of Business, the pair decided to start TransPerfect Translations to provide timely, accurate translation services to companies across the globe. Launched from a dorm room, TransPerfect Translations now employs more than 2,000 people in 80 offices on six continents and generates annual sales of more than \$350 million. Elting and Shawe have financed the companies' growth without any external financing. Elting says she and Shawe enjoy having the freedom to make their own business decisions and not having to explain them to investors or anyone else. The duo also agree there is nothing they would rather be doing than running their own business.⁵⁰

Opportunity to Reap Impressive Profits

Although money is not the primary force driving most entrepreneurs, the profits their businesses can earn are an important motivating factor in their decisions to launch companies. A recent survey by Wells Fargo reports that 72 percent of small business owners believe they are in a better financial position running their own businesses than working for a company in the same field.⁵¹ Several studies, including one by the Institute for the Study of Labor, confirm this belief; the median salary for entrepreneurs is 18 percent higher than that for employed workers.⁵² What explains the earning differential? "While employees suffer from the 'guard rails' and 'iron cages' of corporate America, entrepreneurs are able to create environments over time that maximize the value of their education and skills," notes one writer.⁵³ Entrepreneurs are not constrained by the boundaries that corporate hierarchies impose on their employees; they are free to create value by making the best use of their experience, skills, abilities, and ideas and, as a result, reap the financial benefits of their creative efforts. Most entrepreneurs never become superrich, but many of them do become quite wealthy. In fact, more than two-thirds of the billionaires on the *Forbes* list of the 400 richest Americans are first-generation entrepreneurs!⁵⁴ People who own their own businesses are more likely to be millionaires than those who are employed by others. According to Russ Alan Prince and Lewis Schiff, authors of *The Middle Class Millionaire*, more than 80 percent of middle-class millionaires, those people with a net worth between \$1 million and \$10 million, own their own businesses or are part of professional partnerships. (They also work an average of 70 hours a week.)⁵⁵ Indeed, the typical millionaire's business is not a glamorous, high-tech enterprise; more often, it is something much less glamorous—scrap metal, welding, auctioneering, garbage collection, and the like.



ENTREPRENEURIAL PROFILE: Madison Robinson: Fish Flops When Madison Robinson was just eight years old, she was living at the beach in Galveston Island, Texas, and came up with the idea of flip flops for children adorned with sea creature motifs and LED lights. Five years later, her father, Dan, a former banker, helped her turn her sketches into an actual product, Fish Flops, and get some samples made so that she could display them at a trade show, which resulted in more than 30 boutique stores placing orders. Using family and friend financing, Madison also

launched a Web site and wrote to buyers at upscale department stores Nordstrom and Macy's, which not only agreed to sell Fish Flops but also asked Madison to design a line of Fish Flops for women. Madison used social media marketing to catch the attention of reporters, television show hosts (including *Entertainment Tonight's* Nancy O'Dell), and HSN's Tony Little. Her company also received publicity after Madison convinced celebrities to sign 300 pairs of Fish Flops that she donated to patients at a children's hospital. As she enters the tenth grade, Madison already has sold more than 60,000 pairs of Fish Flops, generating more than \$1.2 million in sales. In business just two years, Madison's company has diversified into apparel and children's books and is already profitable, earning more than enough to cover her tuition for college, where she plans to study business.⁵⁶ ■

Opportunity to Contribute to Society and Be Recognized for Your Efforts

Playing a vital role in their local business systems and knowing that their work has a significant impact on the nation's economy is yet another reward for small business managers. Often, small business owners are among the most respected and most trusted members of their communities. Business deals based on trust and mutual respect are the hallmark of many established small companies. These owners enjoy the trust and recognition they receive from the customers and the communities they have served faithfully over the years. A recent Public Affairs Council survey reports that 87 percent of adults have a favorable view of small businesses, compared to just 41 percent who view the federal government favorably.⁵⁷ An earlier version of the same survey reports that 68 percent of adults say they prefer doing business with a small local company that charges somewhat higher prices than a large national company that offers lower prices.⁵⁸

Opportunity to Do What You Enjoy and Have Fun at It

A common sentiment among small business owners is that their work really isn't work. Most successful entrepreneurs choose to enter their particular business fields because they have an interest in them and enjoy those lines of work. They have made their avocations (hobbies) their vocations (work) and are glad they did! In a recent Gallup poll, 51 percent of entrepreneurs said that if money were no object, they would continue to work either full- or part-time in their businesses, and 18 percent said they would start another business.⁵⁹ These entrepreneurs are living Harvey McKay's advice: "Find something you love to do, and you'll never have to work a day in your life." The journey rather than the destination is the entrepreneur's greatest reward. "Rather than have money be your primary motivator," says Tony Hsieh, CEO of online shoe retailer Zappos, a company that Hsieh sold to Amazon for \$1.2 billion, "think about what you would be so passionate about doing that you'd be happy doing it for 10 years, even if you never made any money from it. That's what you should be doing. Your passion is what's going to get you through the hard times. Your passion is going to be contagious and rub off onto employees and have a ripple effect on customers and business partners as well."⁶⁰



ENTREPRENEURIAL PROFILE: Ian McMenamin: Anything Coral

When Ian McMenamin was in high school, he worked in a pet store and spent a lot of time near the saltwater aquariums because he was fascinated by the beautifully colored coral in them. McMenamin learned that the more colorful the coral, the higher its selling price and that it is possible to grow coral. He took some of the money he had saved from his part-time job and invested in the equipment he needed to grow coral. His early efforts failed, but over time, McMenamin engaged in extensive research and conducted his own experiments to learn which diets produced the best results for his coral and was able to produce enough to sell to customers he found through Craigslist. As his knowledge base grew, McMenamin began growing rare varieties of coral, which attracted more customers, many of whom were willing and able to pay premium prices for rare specimens of coral. While he was a sophomore at the University of Oregon, McMenamin invested \$12,000 in more sophisticated equipment and officially launched his company, Anything Coral. His customer base grew, and today, McMenamin, who recently graduated from the University of Oregon with a degree in business and entrepreneurship, rents a 1,500-square-foot room in the basement of his apartment building in Eugene, Oregon, where he grows more than 400 varieties of coral using environmentally sustainable methods. Anything Coral sells to more than 300 retail and 30 wholesale customers around the world, including some of the world's wealthiest coral collectors, and has become one of the most successful coral distributors on the West Coast.⁶¹ ■

Not only has McMenamin found a way to earn a living, but, more important, he is doing something he loves!

LOBB

Describe the drawbacks of entrepreneurship.

The Potential Drawbacks of Entrepreneurship

Owning a business has many benefits and provides many opportunities; however, anyone planning to enter the world of entrepreneurship should be aware of its potential drawbacks. Although operating a successful business has never been easy, 59 percent of small business owners say running their companies is harder now than it was five years ago. In addition to a soft economy, entrepreneurs cited difficulty keeping pace with technology and more competition from direct rivals and large companies as the primary reasons that business is more difficult today.⁶² Entrepreneurship is not a suitable career path for the timid. Individuals who prefer the security of a steady paycheck, a comprehensive benefits package, a two-week paid vacation, and the support of a corporate staff probably should not go into business for themselves. Some of the disadvantages of entrepreneurship include the following.

Uncertainty of Income

Opening and running a business provides no guarantee that an entrepreneur will earn enough money to survive. Although the mean and median incomes for entrepreneurs are higher than those for employees, so is the *variability* of entrepreneurs' incomes. In other words, some entrepreneurs earn far more through their companies than they could working for someone else, but other entrepreneurs' businesses barely earn enough to provide them with an adequate income. In the early days of a start-up, a business often cannot provide an attractive salary for its owner and meet all its financial obligations, meaning that the entrepreneur may have to live on savings or a spouse's income. The steady income that comes with working for someone else is absent because the owner is always the last one to be paid.



ENTREPRENEURIAL PROFILE: Gary Whitehill: Entrepreneur Week Gary Whitehill, a former investment banker on Wall Street, decided to forego his six-figure salary and invest his life savings into a start-up venture, Entrepreneur Week. Whitehill and his cofounders estimate that they saved \$350,000 in the first year by bootstrapping their start-up, which sponsors events around the world that are designed to provide other entrepreneurs with the skills and inspiration they need to launch their companies. The cofounders agreed that they would not draw salaries for at least one year, used their network of contacts to secure publicity and in-kind start-up services, and worked from their homes to avoid the cost of renting office space. Whitehill had interns sleeping on his couches and managers staying in spare bedrooms and held weekly strategy sessions on his patio.⁶³ ■

Risk of Losing Your Entire Investment

Business failure can lead to financial ruin for an entrepreneur, and the small business failure rate is relatively high. According to research by the Bureau of Labor Statistics, 34 percent of new businesses fail within two years, and 51 percent shut down within five years. Within 10 years, 66 percent of new businesses will have folded.⁶⁴ Business failure can mean financial ruin for an entrepreneur. Before "reaching for the golden ring," entrepreneurs should ask themselves if they can cope psychologically with the consequences of failure:

- What is the worst that could happen if I open my business and it fails?
- How likely is the worst to happen? (Am I truly prepared to launch my business?)
- What can I do to lower the risk of my business failing?
- If my business were to fail, what is my contingency plan for coping?

Long Hours and Hard Work

Business start-ups usually demand long hours and hard work from their owners. The average small business owner works 51 hours a week, compared to the 40.2 hours per week the typical U.S. production employee works.⁶⁵ Adam Warren, founder of Syinc.tv and Sportyourself, companies that allows users to incorporate links to retailers' Web sites for the products that appear in their online photographs and receive payment when someone purchases a tagged item, says that his business is nothing like a 9-to-5 job. Warren's workday typically starts at 6:30 A.M. and does not end until 10 p.m. or later, but Warren does not view it as work. Operating

his own business is a passion that he sees as a calling.⁶⁶ In many start-ups, six- or seven-day work-weeks with no paid vacations are the *norm*. A recent survey by American Express OPEN reports that only 49 percent of small business owners were planning to take a summer vacation of at least one week. The primary reason entrepreneurs don't take vacations? "Too busy."⁶⁷ The demands of owning a business make achieving a balance between work and life difficult for entrepreneurs. Many entrepreneurs find that they must work 60 to 80 hours a week as they build their businesses and must push their personal lives aside until their companies are established.⁶⁸

Lower Quality of Life Until the Business Gets Established

The long hours and hard work needed to launch a company can take their toll on the other aspects of an entrepreneur's life. Business owners often find that their roles as husbands or wives and fathers or mothers take a backseat to their roles as company founders. In fact, according to a survey by American Express, 67 percent of entrepreneurs say that owning a business requires them to make sacrifices, most often in the areas of family relationships and friendships.⁶⁹ Meg Hirshberg, whose husband Gary founded Stonyfield Farm, a maker of organic yogurt, says that an entrepreneur's family members actually are his or her most important investors because no one will sacrifice more or be affected more by the outcome of the business venture. Because launching a business consumes so much of an entrepreneur's time, energy, and focus, his or her family members often wonder whether the business takes priority over family.⁷⁰ Part of the problem is that more than three-fourths of all entrepreneurs launch their businesses between the ages of 20 and 44, just when they marry and start their families.⁷¹ As a result, marriages, families, and friendships are too often casualties of small business ownership.



ENTREPRENEURIAL PROFILE: Frances and Michael Weldon: Cattail Ridge Family Market

Market Four years after launching Cattail Ridge Family Market in Sackville, New Brunswick, Frances Weldon was exhausted from the constant challenges of starting and running a business and felt isolated because the business consumed almost all of her time and energy. To regain balance in her life, she asked her husband Michael to join the company. Frances now manages the sales floor because customer service is her strength, and Michael handles the company's operations, which is his strength. The change saved the company. The Weldons spend more time with their friends and family and will soon take their first vacation since starting the business.⁷² ■

High Levels of Stress

Starting and managing a business can be an incredibly rewarding experience, but it also can be a highly stressful one (see Figure 1.4). Entrepreneurs often have made significant investments in their companies, have left behind the safety and security of a steady paycheck and benefits, and have mortgaged everything they own to get into business. Failure may mean total financial ruin, and that creates intense levels of stress and anxiety! Sometimes entrepreneurs unnecessarily bear the burden of managing alone because they cannot bring themselves to delegate authority and responsibility to others in the company, even though their employees are capable.

Complete Responsibility

It's great to be the boss, but many entrepreneurs find that they must make decisions on issues about which they are not really knowledgeable. Many business owners have difficulty finding advisers. When there is no one to ask, the pressure can build quickly. The realization that the decisions they make are the cause of their company's success or failure has a devastating effect on some people.

Discouragement

Launching a business is a substantial undertaking that requires a great deal of dedication, discipline, and tenacity. Along the way to building a successful business, entrepreneurs will run headlong into many different obstacles, some of which appear to be insurmountable. In the face of such difficulties, discouragement and disillusionment are common emotions. Successful entrepreneurs know that every business encounters rough spots along the way, and they wade through difficult times with lots of hard work and an abundant reserve of optimism.

Despite the challenges that starting and running a business pose, entrepreneurs are very satisfied with their career choices. A Wells Fargo/Gallup Small Business Index survey reports that 83 percent of small business owners say that if they were choosing a career again, they would still

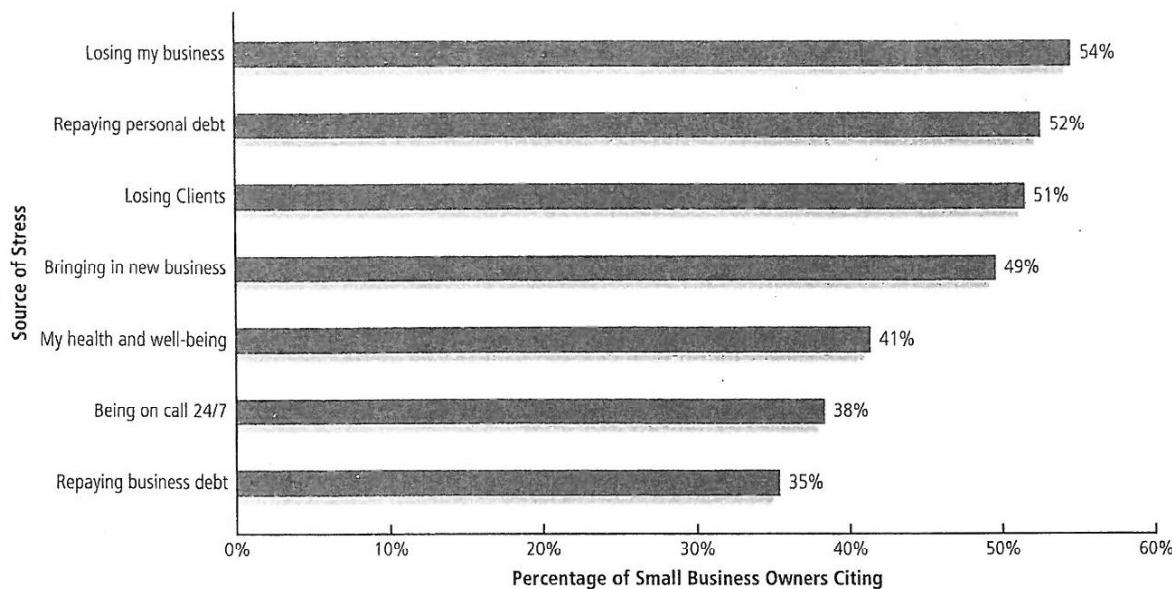


FIGURE 1.4
Sources of Stress for Small Business Owners

Source: Based on *Q1 U.S. Small Business Survey: Health and Well-Being*, Hiscox, April 2012, p. 12.

become small business owners.⁷³ “I absolutely love what I’m doing,” says Scott Badger, founder of KPI Direct, a consulting company that helps businesses create direct marketing programs. “I have no regrets.”⁷⁴ Many entrepreneurs are so happy with their work that they want to continue it indefinitely. In fact, 63 percent of entrepreneurs polled in a recent survey say they never intend to fully retire, choosing instead to work either full- or part-time, and 4 percent say they intend to start a new business.⁷⁵

LO4

Explain the forces that are driving the growth of entrepreneurship.

Behind the Boom: What’s Feeding the Entrepreneurial Fire

What forces are driving this entrepreneurial trend in our economy? Which factors have led to this age of entrepreneurship? Some of the most significant ones include the following:

Entrepreneurs as heroes. An intangible but compelling factor is the attitude that Americans have toward entrepreneurs. As a nation, we have raised them to hero status and have held out their accomplishments as models to follow. Business founders such as Bill Gates (Microsoft Corporation), Kevin Plank (Under Armour), Oprah Winfrey (Harpo Productions and OWN [the Oprah Winfrey Network]), Jeff Bezos (Amazon), Robert Johnson (Black Entertainment Television), Steve Jobs (Apple), and Mark Zuckerberg (Facebook) are to entrepreneurship what LeBron James, Michael Phelps, and Tom Brady are to sports.

Entrepreneurial education. Colleges and universities have discovered that entrepreneurship is an extremely popular course of study. Disillusioned with corporate America’s downsized job offerings and less promising career paths, a rapidly growing number of students sees owning a business as their best career option. Increasingly, students enroll in college knowing that they want to start their own companies rather than considering entrepreneurship as a possibility later in life; indeed, many are starting companies while they are in college. Today, more than two-thirds of the colleges and universities in the United States (more than 2,300) offer more than 5,000 courses in entrepreneurship or small business, up from just 16 in 1970. More than 400,000 students are enrolled in entrepreneurship courses taught by nearly 9,000 faculty members, and many colleges and universities have difficulty meeting the demand for courses in entrepreneurship and small business.⁷⁶

**ENTREPRENEURIAL PROFILE: Jeremy Young: HillFresh Laundry**

When Jeremy Young enrolled at Hamilton College in Clinton, New York, he declared a major in art history, but joining the entrepreneurship club on campus in his sophomore year changed his future. During one of the club's meetings, Young pitched the idea of a prepaid laundry service aimed at busy students and soon had partnered with four other students to research the market and prepare a business plan. Rather than raise capital to start a laundry business, Hill and his partners decided to become laundry brokers. Impressed with the young entrepreneurs' business plan and professionalism, college administrators approved their request to launch their company, Hillfresh Laundry, on campus. The entrepreneurs mailed materials promoting their laundry service and within 18 months had recouped their initial investments and were earning a profit. Young immediately began preparing a succession plan to ensure that HillFresh Laundry continues to operate after he graduates. The founders donate a portion of the company's sales to the entrepreneurship club that helped them get started.⁷⁷ ■

Demographic and economic factors. More than 75 percent of entrepreneurs start their businesses between the ages of 20 and 44, and the number of Americans in that age range currently is nearly 103 million! In addition, the economic growth that spanned most of the last 25 years created a significant amount of wealth among people of this age group and many business opportunities on which they can capitalize.

**ENTREPRENEURIAL PROFILE: Michelle Lam and Aarthi Ramamurthy: True & Co.**

After Michelle Lam, 33, a former research associate with several large multinational consulting firms, spent two hours in a fruitless search for a new bra at a San Francisco department store, she decided that there had to be a better way and decided to improve the customer buying experience that has remained the same since the modern bra was invented in the mid-1930s. Lam worked with Aarthi Ramamurthy, a former program manager for Microsoft, to develop an online quiz using guidelines that experts use to fit customers without using a tape measure. After testing the quiz, which is based on a computer algorithm that accounts for more than 2,000 body variations, with the help of a professional fitter at bra-fitting parties they hosted, Lam and Ramamurthy raised \$2 million from angels and venture capital firms and launched True & Co., their bra-fitting business and online retail store. After a shopper completes the fitting quiz, the algorithm identifies her "best fits," and after receiving a \$45 fully-refundable deposit, True & Co. ships her up to five bras. Customers pay only for those they keep; shipping and returns are free. Sales are growing rapidly, and Lam and Ramamurthy have expanded their product line to include other lingerie and are planning to introduce their own private label line of bras. One investor says True & Co. has identified a customer pain point in the \$12 billion intimate apparel industry and is offering a valuable solution to it.⁷⁸ ■

Shift to a service economy. The service sector accounts for 82.5 percent of the jobs and 79.7 percent of the private sector gross domestic product (GDP) in the United States, both of which represent a sharp rise from just a decade ago.⁷⁹ Because of their relatively low start-up costs, service businesses have become very popular among entrepreneurs. The booming service sector continues to provide many business opportunities, from educational services and computer maintenance to pet waste removal and iPod repair.

Technology advancements. With the help of modern business machines such as personal computers, laptop computers, smart phones, fax machines, copiers, color printers, answering machines, and voice mail, even one person working at home can look like a big business. At one time, the high cost of such technological wizardry made it impossible for small businesses to compete with larger companies that could afford the hardware. Today, however, powerful computers, smart phones, and communication equipment are priced within the budgets of even the smallest businesses and have drastically reduced the cost of launching a business. Noting how technology has made testing an idea and starting a business much easier, David Kappos, head of the U.S. Patent and Trademark Office, says, "The distance between an idea and the marketplace has decreased dramatically."⁸⁰ Although entrepreneurs may not be able to manufacture heavy equipment in their spare bedrooms, they can run a service- or information-based company from their homes—or almost anywhere—very effectively and look like any *Fortune* 500 company to customers and clients. Jimbo Wales, founder of Wikipedia, says, "Wherever my laptop is, that's my office."⁸¹

Independent lifestyle. Entrepreneurship fits the way Americans want to live—*independent* and *self-sustaining*. People want the freedom to choose where they live, what hours they work, and what they do. Although financial security remains an important goal for most entrepreneurs, many place top priority on lifestyle issues, such as more time with family and friends, more leisure time, and more control over work-related stress.

The Internet, cloud computing, and mobile marketing. The proliferation of the Internet, the vast network that links computers around the globe and opens up oceans of information to its users, has spawned thousands of entrepreneurial ventures since its beginning in 1993. **Cloud computing**, Internet-based subscription or pay-per-use software services that allow business owners to use a variety of business applications, from database management and inventory control to customer relationship management and accounting, has reduced business start-up and operating costs. Fast-growing small companies can substitute cloud computing applications for networks of computers and large office spaces, which allows entrepreneurs to build their companies without incurring high overhead costs.

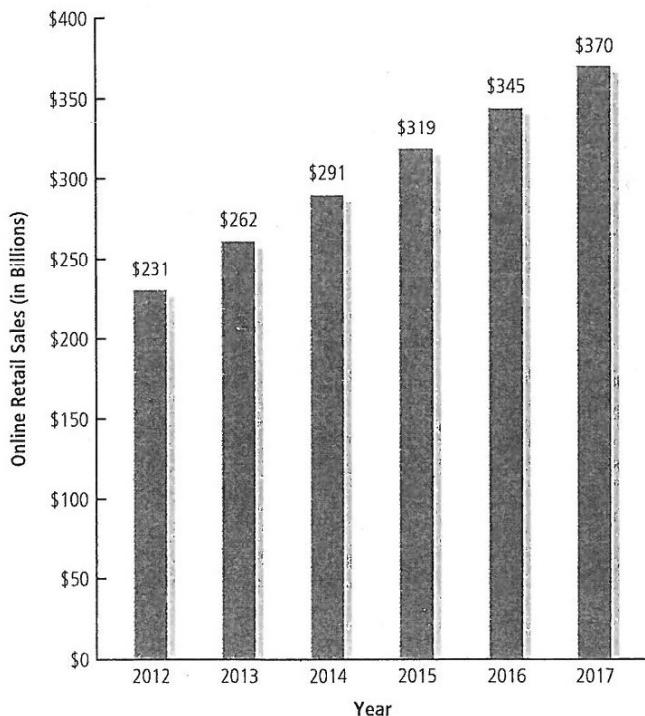
cloud computing
internet-based subscription or pay-per-use software services that allow business owners to use a variety of business applications, from database management and inventory control to customer relationship management and accounting.

Online retail sales, which currently account for 10 percent of total retail sales, are forecasted to continue to grow rapidly (see Figure 1.5), creating many opportunities for Web-savvy entrepreneurs. Computer software and hardware, books, music, consumer electronics, office supplies, and apparel are among the best-selling items on the Internet, but entrepreneurs are learning that they can use this powerful tool to sell just about anything! In fact, entrepreneurs are using the Internet to sell services such as tours to the sites of their favorite television shows and movies (including *Sex and the City* and *The Sopranos*), pajama parties for women, products such as crocheted cotton thong underwear, and recordings by musicians who perform for tips in the New York City subway.⁸² Sami Bay launched the Something Store, an online store where customers pay \$10 (shipping is free) and receive “something,” a random item that the company guarantees sells for at least \$10. Tens of thousands of customers have ordered something from the store and have received surprises that range from coffee mugs and USB hubs to cool toys and iPods.⁸³

Currently, about 60 percent of small businesses have Web sites, double the number that had Web sites in 1997, and 67 percent of business owners say they use their Web sites to

FIGURE 1.5
U.S. Online Retail Sales

Source: Forrester Research, 2013.



market to their customers, second only to word-of-mouth as a marketing tool.⁸⁴ Business owners are discovering the importance of connecting with online customers through their mobile devices. In fact, 37 percent of the time users spend on the Internet is on a mobile device, but only 26 percent of small companies have mobile-friendly Web sites.⁸⁵ Small companies that make their Web sites mobile friendly typically reap benefits quickly, however, in the form of new customers and increased sales. According to one study, 84 percent of small businesses report an increase in new business as a result of their mobile marketing efforts.⁸⁶



ENTREPRENEURIAL PROFILE: Andy Kurtzig: Pearl.com When Andy Kurtzig's wife was pregnant with their first child, she called her doctor so often with questions that the physician finally asked her to call less often. The situation gave Kurtzig the idea to create a Web site, Pearl.com, that connects people who have questions to experts in hundreds of fields, ranging from medicine to home repairs. "I thought, 'Why not program a Web site so she could talk to a doctor anytime she wanted?'" he says. Pearl.com screens its experts with background checks and an eight-step vetting process. Fees range from \$10 to \$90 with an average of \$30, and the average response time to a customer's question is 7.5 minutes. Pearl.com, now with 140 full-time employees, has a stable of 10,000 experts and operates in 196 countries. Kurtzig used bootstrapping to launch his company and get it to 10 million unique monthly users before he raised \$51.3 million in two rounds of venture capital financing to fuel its growth and to develop mobile versions of the Web site.⁸⁷ ■

International opportunities. No longer are small businesses limited to pursuing customers within their own borders. The shift to a global economy has opened the door to tremendous business opportunities for entrepreneurs willing to reach across the globe. Although the United States is an attractive market for entrepreneurs, approximately 95 percent of the world's population and 80 percent of its purchasing power lie outside U.S. borders.⁸⁸ The emergence of potential markets across the globe and crumbling barriers to international business because of trade agreements have opened the world to entrepreneurs who are looking for new customers. Whereas companies once had to grow into global markets, today small businesses can have a global scope from their inception. Called **micromultinationals**, these small companies focus more on serving customers' needs than on the countries in which their customers live. More than 305,000 small businesses export goods and services. In fact, small businesses make up nearly 98 percent of all businesses engaged in exporting, yet they account for only 33 percent of the nation's export sales.⁸⁹ Many small companies that could export do not take advantage of export opportunities, often because their owners don't know how or where to start an export initiative. Although regional unrest and recessions remain challenges to international trade, global opportunities for small businesses have a long-term positive outlook.

micromultinationals
small companies that
operate globally from their
inception.

Although going global can be fraught with dangers and problems, many entrepreneurs are discovering that selling their products and services in foreign markets is really not so difficult. Small companies that have expanded successfully into foreign markets tend to rely on the following strategies:

- Researching foreign markets thoroughly
- Focusing on a single country initially
- Utilizing government resources designed to help small companies establish an international presence
- Forging alliances with local partners



ENTREPRENEURIAL PROFILE: Lawrence Sheer: Magnificent Baby Lawrence Sheer's business, Magnificent Baby, has been a global company since he started it in 2010. Sheer's company, which is based in New York City, manufactures its baby products, which use magnetic fasteners rather than snaps or buttons, in China and distributes them in 20 countries around the world. Sheer entered international markets only when enough customers in a particular country demonstrated interest in the company's products. Magnificent Baby generates nearly 10 percent of its sales from exports, and Sheer recently signed agreements with foreign distributors in Canada, Hong Kong, Australia, and New Zealand. Currently, he is working to find a foreign distributor in Great Britain.⁹⁰ ■



You Be the Consultant

College: The Ideal Place to Launch a Business

For growing numbers of students, college is not just a time of learning, partying, and growing into young adulthood; it is fast becoming a place for building a business. More than 2,300 colleges and universities offer courses in entrepreneurship and small business management (an increase from just 200 schools in the 1970s) to more than 400,000 students, and many of them have trouble keeping up with demand for these classes. "Students used to come to college and assume that five to ten years down the road, they'd start a business," says Gerry Hills, cofounder of the Collegiate Entrepreneurs Organization. "[Today], they come in preparing to get ideas and launch."

Many collegiate entrepreneurs realize that if they are going to have a job when they graduate, it is likely to be one they have created for themselves. According to a recent survey by Accenture, only 16 percent of college graduates who applied for a job had one waiting for them after graduation. For a growing number of college students, landing a job in corporate America, starting on the bottom rung of an uncertain career ladder, has lost much of its allure. While studying at Harvard (where she majored in the history of science), Windsor Hanger worked in internships at *OK! Magazine* and at Bloomingdale's, which offered her a marketing position when she graduated. Hanger turned down the job offer, choosing instead to focus on the business, *HerCampus*, an online magazine aimed at college women, that she had started with classmates Stephanie Kaplan and Annie Wang. "It's not a pure dichotomy anymore that entrepreneurship is risky and other jobs are safe, so why not do what I love?" she says. For their work at *HerCampus*, which is now profitable, Hanger, Kaplan, and Wang recently were named to *Inc.* magazine's "30 Under 30 Coolest Young Entrepreneurs" list.

Perhaps because of their stage in life, college entrepreneurs are particularly keen at spotting business opportunities. When Derek Pacqué was a senior at Indiana University, he was at a night-club one cold evening and tucked his coat away in a corner for safekeeping. When he went to get his coat later, however, it was gone. Pacqué never found his coat, but he did find the inspiration for a business when he realized that none of the bars in town had a coat check. Pacqué approached several bar owners around town to see whether they were interested in a coat check service. Many were, and Pacqué launched Hoosier Coat Check, investing \$500 to build portable coat racks and hiring several college students to staff them. Hoosier Coat Check collected between 10 percent and 30 percent of the \$2 to \$3 check fee the bars charged and in just six months generated \$50,000 in revenue. The business was more profitable than Pacqué had expected, but numerous unanticipated problems cropped up as well, including lost tickets and matching customers with the wrong coats.

After graduating, Pacqué worked with a former professor to reformulate his business model to eliminate paper tickets and incorporate digital technology. Now, an app uses photographs and QR codes to check customers' coats, increasing both the speed and the reliability of the service. He also changed the name of the company to CoatChex and began to focus on events at large venues rather than local bars. He landed contracts to provide coat check services for the ESPN and Maxim Super Bowl parties

in Indianapolis, and the company grew from there. Pacqué also discovered an unexpected angle on his company's digital coat check service. His customers wanted access to the information that CoatChex collected on its customers through its app so that they could connect with customers through social media such as Facebook, Twitter, and Instagram.

Pacqué is searching for \$1 million from private investors to fuel CoatChex's growth so that the company can live up to its potential. He appeared on television's *Shark Tank*, offering 10 percent of the company in exchange for a \$200,000 investment. Indiana University alumnus Mark Cuban offered Pacqué \$200,000 for one-third of CoatChex, but Pacqué refused, not wanting to give up that much equity so early in the life of his business. Although Pacqué did not get the investment deal he had hoped for from *Shark Tank*, the brand exposure that CoatChex received from appearing on the show has proved to be as valuable as an infomercial that would cost \$500,000.

While working on a master's degree in computer science and electrical engineering, Limor Fried enjoyed applying the skills she was learning in the classroom, building MP3 players and laser toys from custom-ordered parts. Fried posted the instructions on her Web site and soon was flooded with requests from people asking for pre-assembled kits so that they could build their own devices. "At first, I was like, 'I'm really busy. Leave me alone,'" she recalls. Then she realized the entrepreneurial potential that selling kits had and convinced her parents to allow her to use \$10,000 of the money they had set aside for tuition to purchase parts in bulk, assemble the kits, and sell them. As word spread, the number of orders grew, and Fried began hiring some of her friends to help fill them. Soon, she was designing a new project every week for her customers, who ranged from elementary school kids and tech geeks to hobbyists and retirees.

Today, Fried owns Adafruit Industries, a New York City-based company that generates more than \$10 million in annual sales by selling pre-assembled kits of parts for building cool objects such as MintyBoost, a portable USB mobile device charger made from an Altoids tin and various electronic components (50,000 kits sold so far). Other popular kits include the iNecklace, which allows customers to build a pendant shaped like the "on" button on Apple gadgets (complete with pulsating light), and the MaKey MaKey, a device that uses circuitry and alligators clips to turn anything that conducts electricity (bananas, plants, your dog . . .) into a keyboard or touchpad. AdaFruit Industries' 50 employees are constantly developing new kits and shipping them worldwide.

Budding entrepreneurs at a growing number of colleges can take advantage of a special programs designed to create a culture for entrepreneurship. A growing number of schools provide on-campus business accelerators that offer promising student entrepreneurs amenities such as low-cost (sometimes free) office space, start-up funding, professionally appointed conference rooms, wireless Internet access, smartboards, ample computer facilities, videoconferencing equipment, copiers, and others. Presentations from entrepreneurs, venture capitalists, bankers, attorneys, and others help students define their business ideas and develop their

You Be the Consultant (continued)

business plans. "It's often over those late-night pizzas where the best ideas are born," says one official. One student entrepreneur in the program agrees: "A lot of it is the community. Being around people in the [entrepreneurship] program inspires one to think about other opportunities out there. What I've learned here is how to plan, how to make a business actually work."

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The Cultural Diversity of Entrepreneurship

As we have seen, virtually anyone has the potential to become an entrepreneur. Indeed, diversity is a hallmark of entrepreneurship. We now explore the diverse mix of people who make up the rich fabric of entrepreneurship.



Explain the cultural diversity of entrepreneurship.

Young Entrepreneurs

Young people are embracing entrepreneurship enthusiastically as a career choice. A recent survey by the Kauffman Foundation reports that 40 percent of young people between the ages of 18 and 24 have already started a business or would like to do so in the future. The top five reasons these young people want to start their own businesses include the opportunity to use their skills and abilities, build something for their future, be their own bosses, earn lots of money, and see their ideas realized. Although entrepreneurial activity tends to increase with age, many members of the Millennial generation (or Generation Y, those people born between 1982 and 2000) show high levels of interest in entrepreneurship. Disenchanted with their prospects in corporate America and willing to take a chance at controlling their own destinies, scores of young people are choosing entrepreneurship as their initial career path. People between the ages of 18 and 29, nearly 64 million strong, are deciding that owning their own companies is the best way to create job security and to achieve the balance between work and life that they seek. "People are realizing they don't have to go to work in suits and ties and don't have to talk about budgets every day," says Ben Kaufman, founder of Mophie, a company (named after his golden retrievers, Molly and Sophie) that he started at age 18 while still in high school that makes iPod accessories such as cases, armbands, and belt clips. "They can have a job they like. They can create a job for themselves."⁹¹ Because of young people such as Kaufman, the future of entrepreneurship looks very bright.

Women Entrepreneurs

Despite years of legislative effort, women still face discrimination in the workforce. However, small business has been a leader in offering women opportunities for economic expression through entrepreneurship. Increasing numbers of women are discovering that the best way to break the "glass ceiling" that prevents them from rising to the top of many organizations is to start their own companies. Women entrepreneurs have even broken through the comic strip barrier. Blondie Bumstead, long a typical suburban housewife married to Dagwood, now owns her own catering business with her best friend and neighbor Tootsie Woody!

The number of women-owned businesses is growing 1.5 times faster than the national average.⁹² Women now own 30.4 percent of all privately held businesses in the United States, but their companies generate just 11 percent of business sales.⁹³ Although women-owned businesses are smaller

You Be the Consultant (continued)

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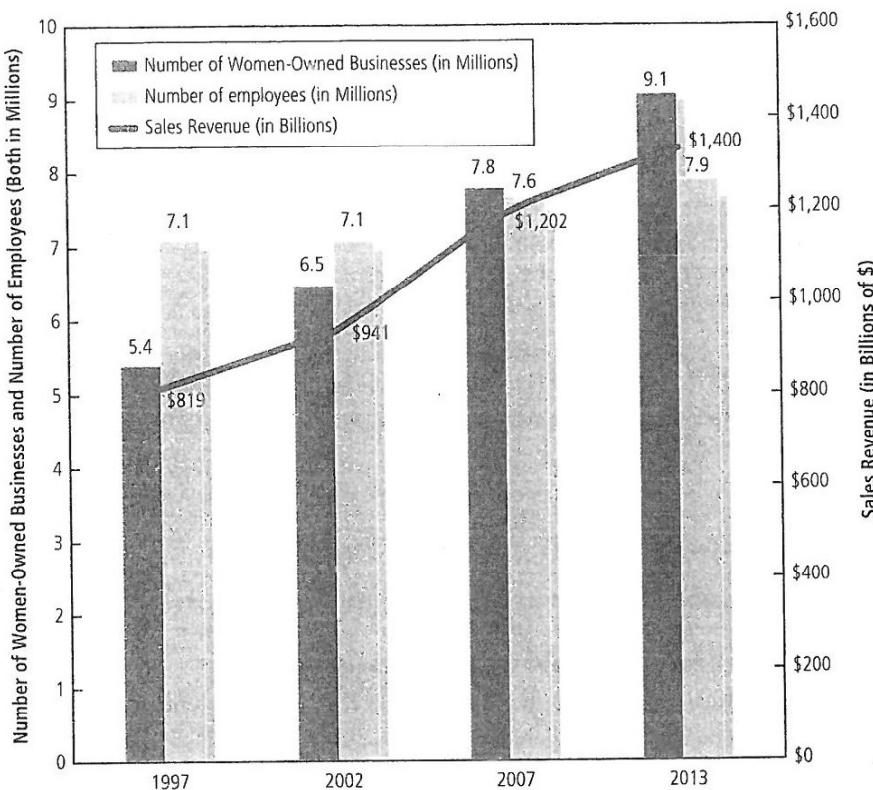
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The number of women-owned businesses is growing 1.5 times faster than the national average.⁹² Women now own 30.4 percent of all privately held businesses in the United States, but their companies generate just 11 percent of business sales.⁹³ Although women-owned businesses are smaller

FIGURE 1.6
Characteristics of Women-Owned Businesses

Source: Based on data from *The 2013 State of Women-Owned Businesses Report*, American Express OPEN, 2013, p. 7.



and far less likely to attract equity capital investments than those that men start, their impact is significant.⁹⁴ The more than 9.1 million women-owned companies in the United States employ nearly 7.9 million workers and generate sales of more than \$1.4 trillion a year (see Figure 1.6)!⁹⁵ A study by Guardian Life Small Business Research Institute projects that women-owned companies will generate between 5 million and 5.5 million jobs in the United States by 2018, which represents more than half the total jobs small companies will generate in that period.⁹⁶



Neil Rasmus/BFAnyc/Sipa USA/Newscom



ENTREPRENEURIAL PROFILE: Sophia Amoruso: Nasty Gal In 2006, Sophia Amoruso, just 21 years old, started a business in her garage selling vintage clothing on eBay. Today, Amoruso is CEO of Nasty Gal (named after a 1975 song by Betty Davis), an online clothing store that has a “crazy, freakishly loyal” customer base of young women who clamor to purchase the company’s vintage-inspired clothing, much of which she purchases from up-and-coming designers. Just four years after launch, Nasty Gal’s annual sales hit \$128 million, a dramatic increase from its first-year sales of \$223,000. Nasty Gal now has 300 employees, a 10,000-square-foot headquarters in downtown Los Angeles, and a 50,000-square-foot warehouse in Louisville, Kentucky. Amoruso recently launched a mobile Web site, a *Super Nasty* magazine, and an in-house brand that includes collections of dresses, tops, jeans, swimwear, and more. Amoruso’s goal is to transform Nasty Gal from a mere retailer to a full-fledged brand. She revels in meeting the challenges that a fast-growing business present, saying that the business changes so quickly, it is almost like working for a new business each month.⁹⁷ ■

Minority Enterprises

Another rapidly growing segment of the small business population is minority-owned businesses. Hispanics, African Americans, and Asians are the minority groups that are most likely to be entrepreneurs. Hispanics, who now make up the largest minority population in the United States, own 8.5 percent of all businesses. African Americans, who make

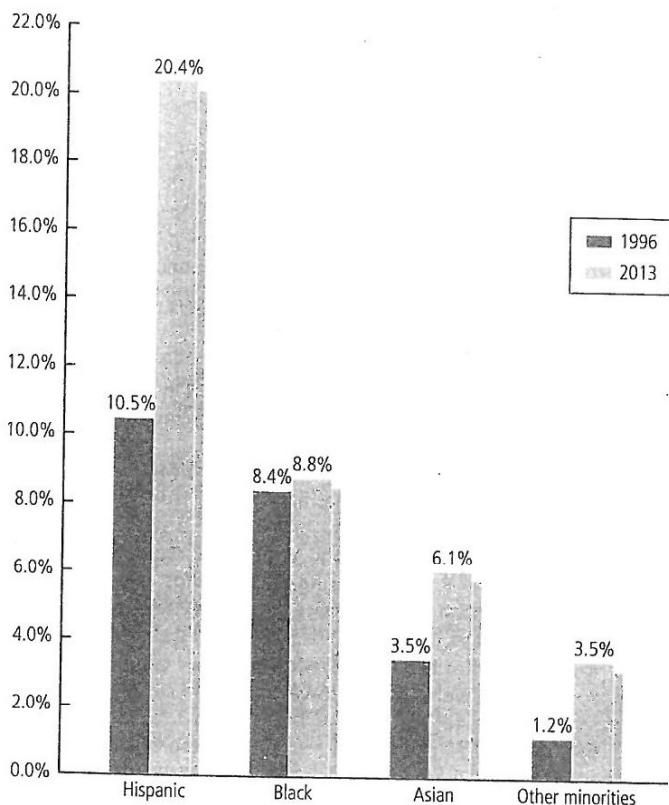


FIGURE 1.7
Percentage of New Entrepreneurs by Minority Group, 1996 vs. 2013

Source: Based on Robert W. Fairlie, *Kauffman Index of Entrepreneurial Activity, 1996–2013*, Kauffman Foundation, April 2014, p. 10.

up about 13 percent of the U.S. population, own 7 percent of all businesses, and Asians own 5.9 percent of all businesses.⁹⁸ Minority-owned businesses have come a long way in the last two decades (see Figure 1.7), however, and their success rate is climbing.



ENTREPRENEURIAL PROFILE: Britta Aragon: Cinco Vidas SkinLabs Inspired by her father's battle with cancer, Britta Aragon, a cancer survivor herself, worked with a team of leading dermatologists, toxicologists, and holistic skin-care chemists to develop a line of nontoxic skin care products that soothe, repair, and hydrate skin that has been damaged by the devastating effects of cancer treatments, skin sensitivity, or skin disorders such as eczema. To sell her innovative products, the former skin care therapist and makeup artist launched Cinco Vidas ("Five Lives" in Spanish) SkinLabs in New York City in 2008. "After I went through cancer and later lost my father to the disease, I knew that my purpose was to make a difference for other people going through similar challenges—whether from cancer or from battling a variety of skin conditions," says Aragon. "Sometimes in tragedy, we find our life's purpose."⁹⁹ ■

Minority entrepreneurs own 22.5 percent of all businesses, and their economic impact is significant. Minority-owned businesses generate \$871 billion in annual revenues and employ more than 5.9 million workers.¹⁰⁰ The future is promising for this new generation of minority entrepreneurs, who are better educated, have more business experience, and are better prepared for business ownership than their predecessors.

Immigrant Entrepreneurs

The United States, which has long been a melting pot of diverse cultures, is the leading destination in the world for immigrants drawn to this nation by its promise of economic freedom and prosperity. The immigrant population in the United States is more diverse than in the past, with people coming from a larger number of countries. In 1960, 75 percent of the foreign-born population came from Europe; today, most immigrants come from Mexico, and just 12 percent of the immigrant population emigrates from Europe.¹⁰¹ Unlike the unskilled "huddled masses" of the

past, today's 40.4 million immigrants, which make up 13 percent of the U.S. population, arrive with more education and experience and often a desire to start a business of their own.¹⁰² In fact, immigrants are significantly (1.9 times) more likely to start businesses than are native-born U.S. citizens.¹⁰³ Immigrant entrepreneurs start their businesses with more capital than do native-born entrepreneurs and are more likely to export goods and services than their native-born counterparts. Immigrant-owned businesses account for 12 percent of total business revenues; however, the annual sales immigrants' businesses generate are just 71 percent of those that native-born entrepreneurs generate (\$434,000 vs. \$609,000).¹⁰⁴ Immigrant-owned businesses play an important role in many key industries. In fact, immigrant entrepreneurs founded 24.3 percent of all the high technology companies started in the United States between 2006 and 2012. These companies employ 560,000 workers and generate \$63 billion in annual sales.¹⁰⁵ Although many immigrants come to the United States with few assets, their dedication, hard work, and desire to succeed enable them to achieve their entrepreneurial dreams. Their impact is significant; immigrants or children of immigrants started 41 percent of *Fortune* 500 companies.¹⁰⁶



ENTREPRENEURIAL PROFILE: Ruben and Rosalinda Montalvo. After emigrating to the United States from his native Mexico as an engineer for Gillette, Ruben Montalvo decided to leave the corporate world behind and embark on a career as an entrepreneur. He launched his first business, Cantinflas Mexican and Vegetarian Gourmet Cuisine, a restaurant in Greer, South Carolina, with his wife Rosalinda using their savings and credit cards in 1994. Since then, Montalvo has gone on to start a dozen other entrepreneurial ventures, including a healthy quick service restaurant, Senor Wraps, a bistro in France, a real estate company, and an investment company. Before financing Cantinflas themselves, Montalvo says that he and Rosalinda turned to family and friends for funding but were turned down. At the time, having to rely on only on their own capital seemed to be an obstacle, but, looking back, Montalvo says it turned out to be a blessing. Montalvo admits that starting a business requires one to step out on faith, but he knows that it was the right decision for him. Like most entrepreneurs, Montalvo sees needs—and business opportunities—everywhere that serve as open doors for new business ventures.¹⁰⁷ ■

Part-Time Entrepreneurs

Starting a part-time business is a popular gateway to entrepreneurship. Part-time entrepreneurs have the best of both worlds: They can ease into business for themselves without sacrificing the security of a steady paycheck and benefits. The Internet (and particularly eBay) and mobile communication devices make establishing and running a part-time business very easy; many part-time entrepreneurs run online businesses from a spare bedroom in their homes or from wherever they are.



ENTREPRENEURIAL PROFILE: Anthony Lau: Cyclehoop When Anthony Lau was a student at London's University College, a thief stole his bicycle even though he had chained it to a signpost on one of the city's busy streets. A short time later, the architectural student noticed a design competition for a secure bicycle parking solution and began researching the problem. He came up with a simple yet effective design involving two simple hoops that proved to be easy to use and hard for thieves to defeat. He entered his design in the competition and won. After winning the competition, Lau launched a part-time business, Cyclehoop, which he financed with his own money, from his bedroom to market his invention. He landed contracts for the Cyclehoop from two London boroughs, Islington and Southwark, and went on to win several business plan competitions. Lau learns something from each business plan competition he enters and uses the feedback he gets to refine his ideas and business model. Today, Cyclehoop generates annual sales of £1.7 million and boasts an international presence, exporting its products to markets all over the world, including the United States, Canada, Australia, New Zealand, Denmark, Sweden, and many others. Lau also worked with a partner, Jessica Lee, to win a competition to design an indoor bicycle shed for Google's New York City office that he also plans to bring to market. Lau and Lee came up with a system for storing bicycles vertically, stacking them on two levels and suspending them from the ceiling, which conserves space.¹⁰⁸ ■

A major advantage of going into business part-time is the lower risk in case the venture flops. Many part-timers are “testing the entrepreneurial waters” to see whether their business ideas will work, whether there is sufficient demand for their products and services, and whether they enjoy being self-employed. As they grow, many successful part-time enterprises absorb more of

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entrepreneurs' time until they become full-time businesses. Starting part-time businesses on a small scale means that entrepreneurs can finance their companies themselves, allowing them to retain complete ownership.

Home-Based Businesses

Home-based businesses are booming! An entrepreneur starts a home-based business on average every 12 seconds.¹⁰⁹ Fifty-two percent of all small businesses are home based, and half of these have at least one employee, which means that home-based companies employ 13.2 million workers (including the owner).¹¹⁰ Home-based businesses are an important economic force; they generate \$427 billion a year in sales.¹¹¹ Several factors make the home the first choice location for many entrepreneurs:

- Operating a business from home keeps start-up and operating costs to a minimum. In fact, 44 percent of home-based entrepreneurs start their businesses for less than \$5,000.¹¹²
- Home-based companies allow owners to maintain flexible life and work styles. Many home-based entrepreneurs relish being part of the “open-collar workforce.”
- Technology, which is transforming many ordinary homes into “electronic cottages,” allows entrepreneurs to run a wide variety of businesses from their homes.
- Many entrepreneurs use the Internet to operate e-commerce businesses from their homes that literally span the globe. They also rely heavily on social media to promote their home-based businesses.

In the past, home-based businesses tended to be rather mundane cottage industries, such as making crafts or sewing. Today's home-based businesses are more diverse; modern “hompreneurs” are more likely to be running high-tech or service companies with annual sales of hundreds of thousands of dollars. Twenty percent of home-based businesses generate between \$100,000 and \$500,000 in annual revenue.¹¹³

Family Businesses

A family-owned business is one that includes two or more members of a family with financial control of the company. Family businesses are an integral part of our economy. Of the nearly 28 million businesses in the United States, 90 percent are family owned and managed. These companies account for 62 percent of total employment in the United States and 78 percent of all new jobs, pay 65 percent of all wages, and generate 64 percent of the nation's GDP. Not all of them are small; 33 percent of the *Fortune* 500 companies are family businesses.¹¹⁴

family-owned business
one that includes two or more members of a family with financial control of the company.

“When it works right,” says one writer, “nothing succeeds like a family firm. The roots run deep, embedded in family values. The flash of the fast buck is replaced with long-term plans. Tradition counts.”¹¹⁵ Indeed, the lifespan of the typical family business is 24 years.¹¹⁶ Despite their magnitude, family businesses face a major threat, a threat from within: management succession. In a recent survey by PriceWaterhouseCoopers, one-third of family business owners expressed apprehension about transferring the business to the next generation, and 9 percent of owners saw the potential for family conflict as a result of the transition.¹¹⁷ Only 30 percent of family businesses survive to the second generation, just 12 percent make it to the third generation, and only 3 percent survive into the fourth generation and beyond. Business periodicals are full of stories describing bitter feuds among family members that have crippled or destroyed once thriving businesses. The co-owner of one family business explains the challenges of operating a family business this way: “The best part is working with family. The worst part is working with family.”¹¹⁸ To avoid the senseless destruction of thriving family businesses, owners should do the following:

- Work to build positive relationships among family members both at and away from work
- Demonstrate respect for other family members' abilities and talents
- Separate responsibilities in the company based on each person's interests, abilities, and talents
- Develop plans for minimizing the potentially devastating effects of estate taxes
- Develop plans for management succession long before retirement looms before them


ENTREPRENEURIAL PROFILE: Antonio, Mario, and Robert Pasin: Radio Flyer

Since 1917, millions of children have played with red Radio Flyer wagons. At age 16, Antonio Pasin, the son of an immigrant cabinet maker, started a business, The Liberty Coaster Company, making wooden wagons in a Chicago workshop. Several years later, Pasin opened his own factory and began making his wagons from metal and called them Radio Flyers. "They were simply the buzzwords of the day," explains Robert Pasin, Antonio's grandson, who now runs the company. Antonio retired from the family business when he was in his 70s, turning the company over to his son, Mario, who expanded the product line and renamed the business Radio Flyer. In 1997, Mario turned over the reins of the family business to his son, Robert, who also introduced new products, including tricycles, scooters, training bikes, and a line of wagons made from plastic that customers can trick out with a plethora of nifty options. The third-generation family business is still going strong with 70 employees and more than \$100 million in annual sales.¹¹⁹ ■

Copreneurs

copreneurs
entrepreneurial couples
who work together as
co-owners of their
businesses.

Copreneurs are entrepreneurial couples who work together as co-owners of their businesses. Nearly 4 million couples operate businesses together in the United States, but unlike the traditional "Mom and Pop" (Pop as "boss" and Mom as "subordinate"), copreneurs "create a division of labor that is based on expertise as opposed to gender," says one expert.¹²⁰ Managing a small business with a spouse may appear to be a recipe for divorce, but most copreneurs say not. Caterina Fake, who with her husband Stewart Butterfield launched Flickr, a photo-sharing Web site, says that sharing with someone you love the intensity of launching a business, with its long hours, terrifying moments of despair, crushing defeats, joyous victories, and raging uncertainty, brings a couple closer together.¹²¹ Successful copreneurs learn to build the foundation for a successful working relationship before they ever launch their companies. Some of the characteristics they rely on include the following:

- An assessment of whether their personalities will mesh—or conflict—in a business setting
- Mutual respect for each other and one another's talents
- Compatible business and life goals—a common vision
- Similar work ethic
- A view that they are full and equal partners, not a superior and a subordinate
- Complementary business skills that each acknowledges and appreciates and that lead to a unique business identity for each spouse
- The ability to keep lines of communication open, talking and listening to each other about personal as well as business issues
- A clear division of roles and authority, ideally based on each partner's skills and abilities, to minimize conflict and power struggles
- The ability to encourage each other and to lift up a disillusioned partner
- Separate work spaces that allow them to escape when the need arises
- Boundaries between their business life and their personal life so that one doesn't consume the other
- A sense of humor
- The realization that not every couple can work together

Although copreneuring isn't for everyone, it works extremely well for many couples and often leads to successful businesses. Both spouses work for a common purpose and bring their unique talents to the business. Combining their skills with their dedication to the company produces a synergistic effect, in which one plus one equals more than two.¹²²



ENTREPRENEURIAL PROFILE: David Horvath and Sun-Min Kim After graduation in 2001, David Horvath sent a letter to his college sweetheart, Sun-Min Kim, who had returned to Korea because her student visa had expired, and signed it with a silly drawing of a wide-eyed monster with long arms, fangs, stubby legs, and a large head. As a surprise, Kim took the drawing and made it into a plush, hand-sewn doll. Horvath happened to show the funny creature to a friend who owned a toy store in Los Angeles, who was intrigued and ordered 20 dolls, which sold quickly. When Horvath's friend called to order more dolls, the couple, who were married in 2005, began designing a collection of brightly colored dolls based on an "Ugly-verse" of 60 characters they created. Orders trickled—and then poured—in, and the copreneurs started Pretty Ugly LLC to market their line of dolls. Today, Pretty Ugly, which is based in Green Brook, New Jersey, employs a dozen workers and sells a complete line of Uglydolls, books, games, apparel, accessories, and other items in more than 10,000 retail stores worldwide. The company Horvath and Kim started together has generated sales of more than \$100 million and sells more than 2 million Uglydolls-branded items each year.¹²³ ■

Corporate Castoffs

Concentrating on shedding the excess bulk that took away their flexibility and speed, many large American corporations have been downsizing in an attempt to regain their competitive edge. For decades, one major corporation after another has announced layoffs—and not just among blue-collar workers. According to placement firm Challenger, Gray, and Christmas, from 2002 to 2012, corporations laid off an average of 80,200 employees per month.¹²⁴ Executives and line workers alike have experienced job cuts, and these corporate castoffs have become an important source of entrepreneurial activity. Some 20 percent of discharged corporate managers have become entrepreneurs, and many of those left behind in corporate America would like to join them. "There is really no safe job anymore," says Marty Bauer, who left the banking industry to launch a start-up business after he witnessed one of his mentors being laid off just three years before he was to retire. Bauer and three friends started RidePost, a Web site that allows travelers to meet and find safe rides from one destination to another.¹²⁵

Many corporate castoffs are deciding that the best defense against future job insecurity is an entrepreneurial offense. Accustomed to the support of the corporations they left, many corporate castoffs decide to purchase franchises, where there is a built-in management system already in place. *Entrepreneur* magazine surveyed the companies on its Franchise 500 list recently and discovered that 77 percent of franchisors report that "second-career executives" (i.e., corporate castoffs) are among the primary purchasers of their franchises.¹²⁶

Corporate Dropouts

The dramatic downsizing of corporate America has created another effect among the employees left after restructuring: a trust gap. The result of this trust gap is a growing number of dropouts from the corporate structure who then become entrepreneurs. Although their workdays may grow longer and their incomes may shrink, those who strike out on their own often find their work more rewarding and more satisfying because they are doing what they enjoy. Other entrepreneurs are inspired to launch their companies after being treated unfairly by large, impersonal corporate entities.



ENTREPRENEURIAL PROFILE: Olivia DeCastro: A Public Affair PR and Diana Classic Children After graduating from college, Olivia DeCastro embarked on a career in corporate America, first with an advertising agency and then as public relations director for a large hospital system. However, DeCastro became disenchanted with the limitations that corporate hierarchies imposed and wanted to control her own destiny. In 2010, the 25-year-old set aside a promising corporate career to launch her own public relations firm, A Public Affair PR, and an upscale children's clothing boutique, Diana Classic Children, in Palm Beach Gardens, Florida. "I didn't feel like I had freedom in the corporate world," says DeCastro. Within two years, A Public Affair PR had a staff of six and offices in Miami, Florida, and Greenville, South Carolina.¹²⁷ ■

Because they have college degrees, a working knowledge of business, and years of management experience, both corporate dropouts and castoffs may ultimately increase the small business survival rate. A recent survey by Manta, an online small business community, reports that 69 percent of small business owners have college degrees, and 61 percent say a college degree was important to their business success.¹²⁸ Better-trained, more experienced entrepreneurs are more likely to succeed.

Retiring Baby Boomers

Because people are living longer and are remaining active as they grow older, the ranks of older entrepreneurs are growing. In fact, according to studies by the Kauffman Foundation, the level of entrepreneurial activity among people ages 55 to 64 actually exceeds that of people ages 20 to 34 (see Figure 1.8). The average age of the first-time entrepreneurs in the United States is nearly 44.¹²⁹ One advantage that older entrepreneurs have is wisdom that has been forged by experience.

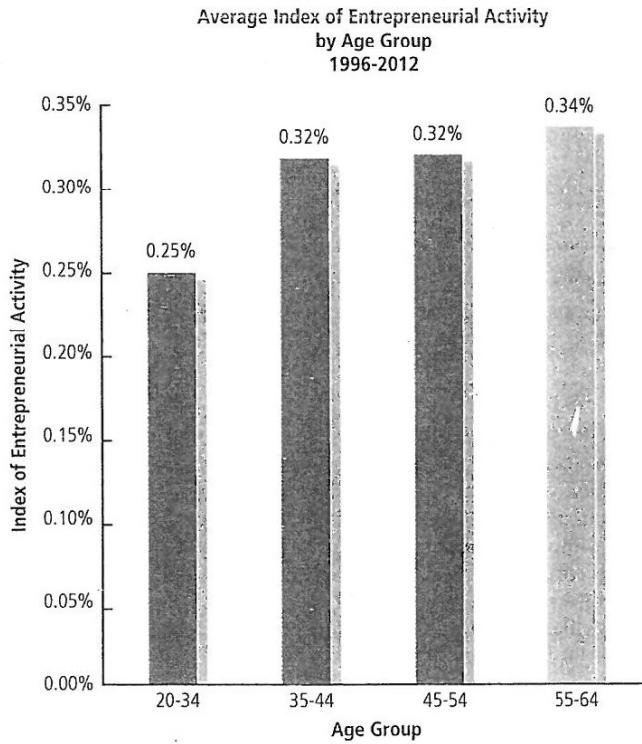


ENTREPRENEURIAL PROFILE: Don Shula: Shula's Steak Houses, LLC

At age 64, Don Shula, retired National Football League coach and Pro Football Hall of Fame member, and several members of his family, including his son Dave who was also an NFL coach, started a restaurant company, Shula's Steak Houses, LLC. The coaching legend, who racked up 347 career wins and is the only coach to complete a perfect season in the NFL, applies the same work ethic to the restaurant business and now has more than 30 restaurants across the United States. In addition to 14 Shula's Steak Houses, the Shulas also own four Shula's Bar and Grills, one Shula's On the Beach, two Shula's 2 Steak and Sports, and eight Shula's 347 Grills. The family's most recent start-up is Shula Burger, an upscale burger eatery that features patties made from a combination of fresh steak and ground beef, veggie burgers, turkey burgers, a large menu of side items, and an impressive wine list. The décor is all sports, with sports events playing on large-screen televisions, football memorabilia, and massive paintings of favorite plays from Shula's playing and coaching days. "I'm just a guy who rolls up his sleeves and goes to work," says Shula, now 83. "The bottom line in coaching is winning. The bottom line in the restaurant business is winning. You want to win every meal."¹³⁰ ■

FIGURE 1.8
Entrepreneurial Activity by Age Group

Source: Based on Robert W. Fairlie, *Kauffman Index of Entrepreneurial Activity, 1996–2013*, Kauffman Foundation, April 2014, p. 13.





Launch a Successful Business While You Are Still in College

Collegiate entrepreneurs are becoming increasingly common as colleges and universities offer more courses and a greater variety of courses in the areas of entrepreneurship and small business management. Launching a business while in college offers many advantages, including access to research and valuable advice, but starting an entrepreneurial career also poses challenges, including a lack of financial resources, business experience, and time. What are some of the most common myths that prevent young people (not just college students) from launching businesses?

- ***I don't have enough money to launch a business.*** One of the greatest benefits of the shift in the United States to a service economy is that service businesses usually are inexpensive to start. One young entrepreneur worked with a friend to launch a Web development company while in high school, and their total start-up cost was just \$80.
- ***I don't have enough time.*** Many companies that have grown into successful, mature businesses were started by entrepreneurs in their spare time. Everyone has the same 24 hours in a day. What matters is what you do with those hours.
- ***I'm not smart enough to start a company.*** SAT scores and grades have little correlation to one's ability to launch a successful business. Quite a few successful entrepreneurs, including Michael Dell (Dell Inc.), Richard Branson (Virgin), Walt Disney (Disney), Mark Zuckerberg (Facebook), and Debbi Fields (Mrs. Fields Cookies), dropped out of college to start their businesses.
- ***I'm not majoring in business.*** Success in entrepreneurship is not limited to students who earn business degrees. Anyone has the potential to be a successful entrepreneur. At the University of Miami, only 20 percent of the students who have participated in The Launch Pad, the school's start-up accelerator, have been business majors.
- ***I'm not creative enough to come up with a good idea for a business.*** As you will learn in Chapter 3, everyone has the potential to be creative. Some of the most successful businesses are the result of an entrepreneur who recognized a simple need that people had and created a business to meet that need.
- ***I don't have any experience.*** Neither did Bill Gates (Microsoft) and Michael Dell (Dell Inc.) when they launched their companies, and things worked out pretty well for both of them. Business experience can be an important factor in a company's success, but every entrepreneur has to start somewhere to gain that experience.
- ***I might fail.*** Failure is a possibility. In fact, the survival rate of new companies after five years is 51 percent. Ask yourself this: What is the worst that can happen if I launch a business and it fails? Entrepreneurs do not allow the fear of failure to stop them from trying to realize their dreams.

If you want to become a successful collegiate entrepreneur, what can you do to increase the chances of your success? The following tips will help.

Recognize That Starting a Business at an Early Age May Be to Your Advantage

Young people tend to be highly creative, and that can provide your company with a competitive advantage. In addition, young people often accomplish things simply because they don't know that they are not supposed to be able to do them!

Build a Business Plan

One of the best ways to lower the probability that your business will fail is to create a business plan. Doing so forces you to ask and then answer some tough questions about your idea and your proposed venture. "It's all about 'derisking' your idea," says Gregg Fairbrothers, who teaches entrepreneurship at Dartmouth's Tuck School of Business. "Identifying, unblinkingly, what could go wrong and taking whatever steps necessary to slash the odds that it will."

Use All of the Resources Available to You

Many colleges and universities now offer courses in entrepreneurship and small business management and have faculty members who are experts in the field. In many cases, the people who are teaching these classes are veteran entrepreneurs themselves with tremendous reservoirs of knowledge and experience. Some colleges provide special dorms for budding entrepreneurs that serve as business incubators. Smart collegiate entrepreneurs tap into the pool of resources that their campuses offer.

Don't Go It Alone

Research from MIT's Sloan School of Business suggests that starting a business with cofounders increases the company's probability of success. Each additional founder up to four increases the likelihood that a start-up will succeed. "Two or three cofounders seems to be the sweet spot," says one expert. Another study reports that solo entrepreneurs take 3.6 times as long to launch than teams of two or more cofounders. Cofounders bring complementary skill sets to the venture, share the burden of the huge volume of work required to launch, and provide an important support system when things get tough. Four students at MIT who met at the school's entrepreneurship center launched Ministry of Supply (MoS), a company whose goal is to revolutionize men's business clothing by adding "tech under the hood." Aman Advani, Kit Hickey, Kevin Rustagi, and Gihan Amarasinghe pooled their individual talents to create garments that incorporate high-tech fabrics that regulate the wearer's body heat, wick moisture, and neutralize bacteria that cause body odor. MoS, whose products are based on technology used to keep astronauts comfortable in space, began by selling men's shirts but has added a line of high-tech T-shirts and pants.

(continued)

Hands On . . . How To (continued)

Find a Mentor

Most young entrepreneurs have not had the opportunity to gain a wealth of business experience, but they do have access to mentors who do. Mike Brown, who recently won the top prize at the annual Global Student Entrepreneur Awards for his company ModBargains.com, a business that sells aftermarket products for modifying cars and trucks, says his first boss, who owns several businesses, served as his mentor. ModBargains.com, which Brown started with fellow car enthusiast Ron Hay, now has more than 4,000 products available and has surpassed annual sales of \$1 million.

Learn to Be a “Bootstrapper”

Learning to start and manage a company with few resources is good training for any entrepreneur. In the early days of their startups, many successful entrepreneurs find creative ways to finance their businesses and to keep their operating expenses as low as possible. Because they lack the deep pockets of their larger rivals, entrepreneurs must use their creativity, ingenuity, and street smarts to market their companies effectively.

Manage Your Time Wisely

Taking college classes and running a business place a large workload on any collegiate entrepreneur, one that demands good time management skills. The most successful entrepreneurs recognize

the importance of controlling their schedules (as much as possible) and working as efficiently as they can.

Remember to Have Fun

College is supposed to be one of the best times of your life! Starting and running a business also can be one of the most rewarding experiences of your life. Doing both can double the fun, but it also can create a great deal of stress. Balance is the key.

Sources: Based on Colleen Taylor, "For Start-Ups Pitching VCs, Three Is the Magic Number," Gigaom, May 13, 2011, <http://gigaom.com/2011/05/13/multiple-founder-startups/>; "No Entrepreneur Is an Island: Cofounders Help Start-Ups Succeed," Nevada Institute for Renewable Energy and Commercialization, January 21, 2013, <http://nirec.org/no-entrepreneur-is-an-island-co-founders-help-startups-succeed/>; Michael Hughes, "Top 10 Articles to Help Entrepreneurs Find a Cofounder," CoFounders Lab, May 31, 2012, <http://blog.cofounderslab.com/founders/how-to-find-a-co-founder/>; Millie Kerr, "Fashion's Final Frontier," *Entrepreneur*, May 2013, p. 78; Claire Martin, "Rolling Up Their Sleeves, as a Team," *New York Times*, May 18, 2013, <http://www.nytimes.com/2013/05/19/business/at-ministry-of-supply-team-work-in-making-high-tech-apparel.html?pagewanted=all&r=0>; Adam Bluestein and Amy Barrett, "Revitalize the American Dream: Bring on the Entrepreneurs!" *Inc.*, July/August 2010, pp. 76–88; David Whitford, "Can You Learn to Be an Entrepreneur?," *Fortune*, March 22, 2010, p. 66; Robert Sherman, "Student Entrepreneur Shares Hard-Won Lessons at YoungMoney.com," *Orange Entrepreneur*, Syracuse University, Fall 2007, p. 5; Daniel Jimenez, "The Best College Entrepreneurs of 2006," *Young Money*, July 2007, http://www.youngmoney.com/entrepreneur/student_entrepreneurs/070126; Michael Simmons, "Why Starting a Business Now May Be the Best Way to Achieve Your Dreams," *Young Money*, July 2003, http://www.youngmoney.com/entrepreneur/student_entrepreneurs/031010_01; and Scott Reeves, "How to Swing with Guerrilla Marketing," *Forbes*, June 8, 2006, http://www.forbes.com/2006/06/08/entrepreneurs-marketing-harley-davidson_cx_sr_0608askanexpert.html.

LO6

Describe the important role that small businesses play in our nation's economy.

small business

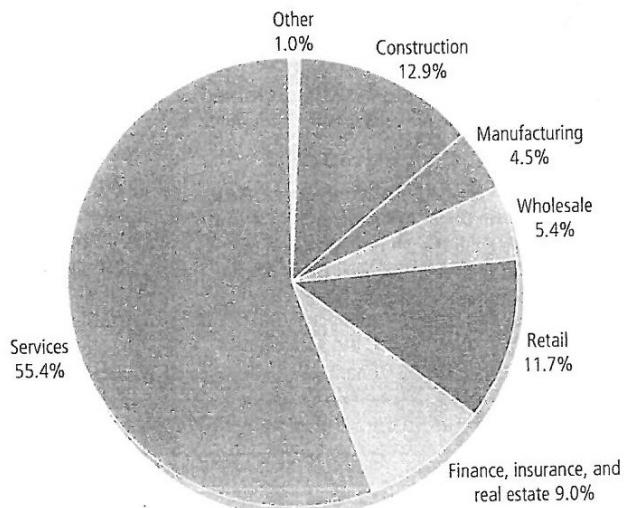
one that employs fewer than 100 people.

The Power of “Small” Business

Of the 27.9 million businesses in the United States, approximately 27.8 million, or 99.7 percent, are considered small. Although there is no universal definition of a small business (the U.S. Small Business Administration has more than 800 definitions of a small business based on industry categories), a common delineation of a small business is one that employs fewer than 100 people. They thrive in virtually every industry, although the majority of small companies are concentrated in the service, construction, and retail industries (see Figure 1.9). Although they

FIGURE 1.9
Small Businesses by Industry

Source: *Statistics of U.S. Businesses: U.S. All Industries by Sector*, U.S. Census Bureau, <http://www.census.gov/epcd/susb/2008/us/US--.HTM>.



may be small businesses, their contributions to the economy are anything but small. For example, small companies employ 49.2 percent of the nation's private sector workforce, even though they possess less than one-fourth of total business assets. Almost 90 percent of businesses with paid employees are small, employing fewer than 20 workers, but small companies account for 43 percent of total private payroll in the United States. Because they are primarily labor intensive, small businesses actually create more jobs than do big businesses. In fact, between 1993 and 2013, small companies created 63 percent of the net new jobs in the U.S. economy.¹³¹

The ability to create jobs is not distributed evenly across the small business sector, however. Research shows that the top-performing 5 percent of small companies create 67 percent of the net new jobs in the economy, and they do so across all industry sectors, not just in "hot" industries, such as high-tech. These young, job-creating small companies are known as **gazelles**, businesses that grow at 20 percent or more per year for four years with at least \$100,000 in annual sales. Nearly 85 percent of these high-impact companies are located in urban areas. Not surprisingly, cities with high levels of entrepreneurial activity boast higher levels of job creation than those that are home to heavier concentrations of existing businesses.¹³² "Mice" are small companies that never grow much and don't create many jobs. The majority of small companies are mice.¹³³ In fact, 75 percent of small business owners say they are not seeking rapid growth for their businesses and want to keep them small.¹³⁴ The country's largest businesses, "elephants," have continued to shed jobs for several years.¹³⁵

Small businesses also produce 46 percent of the country's private GDP and account for 47 percent of business sales.¹³⁶ In fact, the U.S. small business sector is the world's third-largest "economy," trailing only the entire U.S. economy and China! One business writer describes the United States as "an entrepreneurial economy, a system built on nimble, low-overhead small companies with fluid workforces, rather than the massive conglomerates that upheld the economy for decades."¹³⁷

Small companies also are incubators of new ideas, products, and services. Small firms create 16 times more patents per employee than large companies.¹³⁸ Traditionally, small businesses have played a vital role in innovation, and they continue to do so today. Many important inventions trace their roots to an entrepreneur, including the zipper, laser, brassiere, escalator, light bulb, personal computer, automatic transmission, air conditioning, and FM radio.

gazelles

small companies that are growing at 20 percent or more per year with at least \$100,000 in annual sales; they create 70 percent of net new jobs in the economy.

Putting Failure into Perspective

Because of their limited resources, inexperienced management, and lack of financial stability, small businesses suffer relatively high mortality rates. As you learned earlier in this chapter, two years after start-up, 34 percent of small companies have failed, and after five years, 51 percent have failed.¹³⁹ Figure 1.10 shows the failure rate for small businesses over time, clear evidence of the constant "churn" that exists as entrepreneurs create new businesses and others close. New companies that replace old ones with better ideas, market approaches, and products actually are a sign of a healthy, entrepreneurial economy.

107

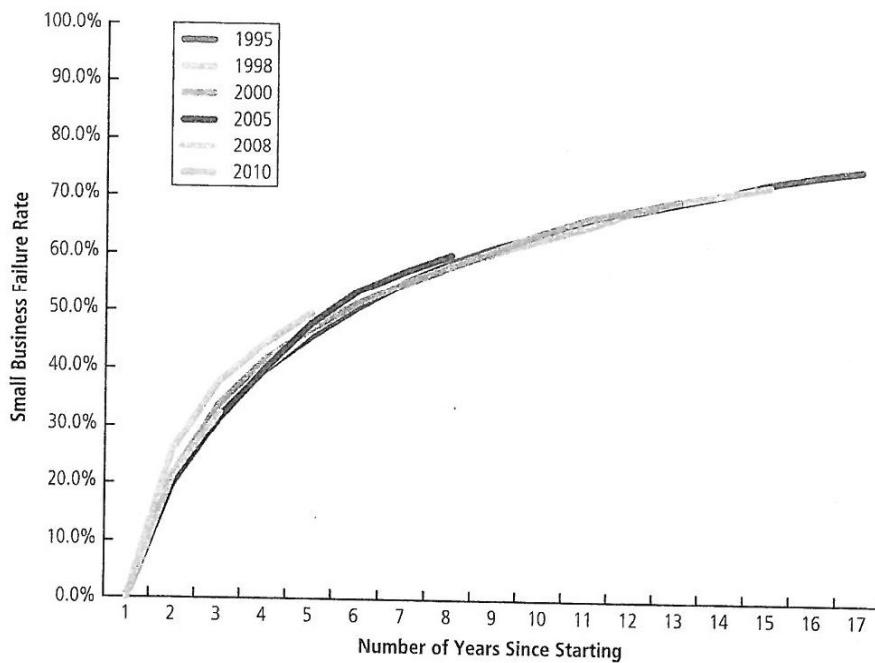
Put failure into the proper perspective.

Because they are building businesses in an environment filled with uncertainty and shaped by rapid change, entrepreneurs recognize that failure is likely to be part of their lives, but they are not paralyzed by that fear. "The excitement of building a new business from scratch is greater than the fear of failure," says one entrepreneur who failed in business several times before finally succeeding.¹⁴⁰ Entrepreneurs use their failures as a rallying point and as a means of refocusing their business ventures for success. They see failure for what it really is: an opportunity to learn what does not work! Successful entrepreneurs have the attitude that failures are simply stepping-stones along the path to success. Basketball legend Michael Jordan displayed the same attitude. "I've missed more than 9,000 shots in my career," he says. "I lost almost 300 games. Twenty-six times, I've been trusted to take the game-winning shot and *missed*. I've failed over and over and over again in my life. And that is why I succeed."¹⁴¹

Failure is a natural part of the creative process. The only people who never fail are those who never do anything or never attempt anything new. Baseball fans know that Babe Ruth held the record for career home runs (714) for many years, but how many know that he also held the record for strikeouts (1,330)? Successful entrepreneurs know that hitting an entrepreneurial home run requires a few business strikeouts along the way, and they are willing to accept them. Failure is an inevitable part of being an entrepreneur, and true entrepreneurs don't quit when they fail. One

FIGURE 1.10**Small Business Failure Rate**

Source: Based on data from "Business Employment Dynamics: Establishment Survival," Bureau of Labor Statistics, 2013, http://www.bls.gov/bdm/us_age_naics_00_table7.txt.



entrepreneur whose business burned through \$800 million of investors' money before folding says, "If you're an entrepreneur, you don't give up when times get tough."¹⁴²

One hallmark of successful entrepreneurs is the ability to fail *intelligently*, learning why they failed so that they can avoid making the same mistake again. James Dyson, whose company makes one of the best-selling vacuum cleaners in the world, made 5,127 prototypes of his bagless vacuum cleaner before he hit on one that worked. Dyson points out that he failed 5,126 times but that he learned from each failure. Each failure brought him closer to a successful solution, so, to him, failure is nothing to fear; it is part of the creative process.¹⁴³ Like Dyson, entrepreneurs know that business success depends on their ability not to avoid making mistakes but rather to be open to the lessons that each mistake teaches. They learn from their failures and use them as fuel to push themselves closer to their ultimate target. "Failure can teach not only what one is doing wrong but also how to do it right the next time," says one business writer. "It can be a useful, even transformational, force for better business practices. It is best not to shove it under the rug because it is, at some point, inevitable."¹⁴⁴ Entrepreneurs are less worried about what they might lose if they try something and fail than about what they might lose if they fail to try.

Entrepreneurial success requires both persistence and resilience, the ability to bounce back from failure. Thomas Edison, who earned 1,093 patents (a record that still stands), discovered about 1,800 ways not to build a light bulb before hitting on a design that worked. "Results!" Edison once exclaimed. "I have gotten a lot of results. I know several thousand things that won't work."¹⁴⁵ Walt Disney was fired from a newspaper job because, according to his boss, he "lacked imagination and had no good ideas." Disney also went bankrupt several times before he created Disneyland. R. H. Macy failed in business seven times before his retail store in New York City became a success. In the spirit of true entrepreneurship, these visionary business leaders refused to give up in the face of failure; they simply kept trying until they achieved success. When it comes to failure, entrepreneurs' motto seems to be, Failure is temporary; quitting is permanent.



ENTREPRENEURIAL PROFILE: Ziver Birg: Zivelo When Ziver Birg was an 18-year-old student at Arizona State University, he started Affordablekiosks.com, an online business that sold kiosks to other companies. His business grew, and Birg raised \$3 million in equity capital to build his own manufacturing operation. The financing was supposed to last his company three years, but Birg burned through it in just nine months and ended up closing the business. Undaunted, Birg was back in business 18 months later with his second kiosk company, Zivelo. Today, Zivelo has 20 employees, generates annual revenue of \$4 million, and is about to build a 100,000-square-foot manufacturing facility.¹⁴⁶ ■

How to Avoid the Pitfalls

Although failure can be a valuable part of the entrepreneurial process, no one sets out to fail in business. Now we must examine the ways to avoid becoming another failure statistic and gain insight into what makes a successful business.

LO8

Explain how an entrepreneur can avoid becoming another failure statistic.

Know Your Business in Depth

We have already emphasized the need for the right type of experience in the business you plan to start. Get the best education in your business area you possibly can *before* you set out on your own. Become a serious student of your industry. Read everything you can—trade journals, business periodicals, books, and research reports—relating to your industry and learn what it takes to succeed in it. Personal contact with suppliers, customers, trade associations, and others in the same industry is another excellent way to get that knowledge. Smart entrepreneurs join industry trade associations and attend trade shows to pick up valuable information and to make key contacts before they open their doors for business.



ENTREPRENEURIAL PROFILE: Steve Ells: Chipotle Mexican Grill Steve Ells has had a passion for food his entire life. As a child, while his friends watched cartoons, he watched cooking shows starring famous chefs Julia Child and Graham Kerr, the Galloping Gourmet. "In grammar school, I learned how to make hollandaise from my Mom, and in high school, I started throwing dinner parties and collecting cookbooks," he recalls. After graduating from the University of Colorado in Boulder, he enrolled in the Culinary Institute of America to refine his cooking skills. From there, he moved to San Francisco, where he worked at Stars, a restaurant that launched the careers of many renowned chefs, and learned the details of operating a restaurant. One day, while dining in a small taqueria in the Mission district of San Francisco, Ells noted the volume of customers the restaurant handled and the system it used to serve them extremely efficiently. Inspired by the experience, Ells decided to return to Denver, Colorado, where he launched the first Chipotle Mexican Grill in 1993 with the help of an \$85,000 loan from his father. "My friends and family thought I was crazy," recalls Ells, "but I had a very clear vision of the way Chipotle was going to look and taste and feel. It was going to incorporate all of the things I had learned while at the Culinary Institute and at Stars." Ells's knowledge and experience in the restaurant industry has paid off. Today, Chipotle, a publicly held company, has nearly 1,600 restaurants and generates more than \$3.2 billion in annual sales!¹⁴⁷

Build a Viable Business Model—and Test It

Before launching a business, an entrepreneur should define the business model on which he or she plans to build a company and test it, preferably with actual customers or potential customers, to verify that it can be successful. Grand assumptions about capturing market share and "hockey stick" revenue growth that never materialize have been the downfall of many start-up businesses. Creating a successful business model requires entrepreneurs to identify all of the model's vital components, including the resources, the partners, the activities they must assemble, the customer segments they are targeting, the channels they will use to reach them, the value proposition they offer customers, and the sources of revenue and accompanying costs they will incur.



ENTREPRENEURIAL PROFILE: Justin Mares: RoommateFit After encountering the "classic horrible roommate" experience when he enrolled at the University of Pittsburgh, Justin Mares thought he could come up with a better way to match roommates with the technology used by online dating sites than the scant questionnaires most colleges use. To test the feasibility of his idea, Mares researched and developed a basic screening model and pitched his idea to 100 college administrators, who expressed a great deal of interest in the service. "Schools are concerned about retention, and this is one tool that can increase student satisfaction,"¹⁴⁸ he says. Using a prize he won from the Collegiate Entrepreneurs' Organization, Mares worked with a psychologist to hone his software, which he named RoommateFit and which measures a variety of personality traits. To test his business model, Mares convinced officials at Ohio University to participate in a pilot study, and the results not only were impressive but also gave him the hard data he needed to demonstrate RoommateFit's effectiveness. Out of the 1,000 freshmen who used RoommateFit, 40 percent planned to stay with their roommates the following year. Mares then applied for a slot in a Pittsburgh business accelerator, AlphaLab. AlphaLab accepted the start-up

and provided Mares with \$30,000 in start-up funds, office space, and access to office equipment. Within six months, Mares had signed three more universities, which license RoommateFit's proprietary software for a fee of \$2 to \$3 per student. In addition to marketing RoommateFit to other colleges and universities, the young entrepreneur also is planning to launch a consumer version for roommate-seekers in New York City and San Francisco.¹⁴⁹ ■

We will discuss the process of building and testing a business model in Chapter 4.

Develop a Solid Business Plan

If an entrepreneur's business model passes the feasibility test, the next step is to prepare a business plan. For any entrepreneur, a well-written business plan is a crucial ingredient in preparing for business success. Without a sound business plan, a company merely drifts along without any real direction. Yet entrepreneurs, who tend to be people of action, too often jump right into a business venture without taking time to prepare a written plan outlining the essence of the business. Not only does a plan provide a pathway to success, but it also creates a benchmark against which an entrepreneur can measure actual company performance. Building a successful business begins with implementing a sound business plan with laser-like focus.

A business plan allows entrepreneurs to replace sometimes-faulty assumptions with facts before making the decision to go into business. The planning process forces entrepreneurs to ask and then answer some difficult, challenging, and crucial questions about target customers, market potential, competition, costs of doing business, pricing, realistic revenue forecasts, and other matters.



ENTREPRENEURIAL PROFILE: Frank Mobley: Immediion At 43, Frank Mobley bowed to his independent streak, left a well-paying steady job with a successful data solutions business, and started his own data support and security company, Immediion. Building on his experience in the telecommunications and data solutions industries, Mobley saw a growing need among mid-size companies for reliable servers that could store data securely and keep companies' Web sites up and running under any circumstances. He spent two months writing a business plan, which was all he had to convince investors to put up the \$2.5 million he needed to launch Immediion. Mobley was able to use the business plan to sell his idea to investors, including friends, family members, and even his former employers. When Mobley started his company in Greenville, South Carolina, he had one data center and no clients. Today, Immediion has four data centers, 300 clients, and is growing rapidly. Mobley considers his business to be successful because his customers are satisfied, his investors are happy, and his employees enjoy their work.¹⁵⁰ ■

We will discuss the process of developing a business plan in Chapter 5.

Understand Financial Statements

Every business owner must depend on records and financial statements to know the condition of his or her business. All too often, entrepreneurs use these only for tax purposes and not as vital management control devices. To truly understand what is going on in the business, an owner must have at least a basic understanding of accounting and finance.

When analyzed and interpreted properly, these financial statements are reliable indicators of a small firm's health. They can be quite helpful in signaling potential problems. For example, declining sales, slipping profits, rising debt, and deteriorating working capital are all symptoms of potentially lethal problems that require immediate attention. We will discuss financial statement analysis in Chapter 11.

Manage Financial Resources

The best defense against financial problems is to develop a practical information system and then use this information to make business decisions. No entrepreneur can maintain control over a business unless he or she is able to judge its financial health.

The first step in managing financial resources effectively is to have adequate start-up capital. Too many entrepreneurs start their businesses undercapitalized. One experienced business owner advises, "Estimate how much capital you need to get the business going and then double that

figure.” His point is well taken; it almost always costs more (and takes longer) to launch a business than any entrepreneur expects. Jake Burton, founder of Burton Snowboards, a company that dominates the snowboard industry with 58 percent market share, made that mistake when he started his now successful company in 1977 straight out of college. Looking back, Burton acknowledges that he underestimated both the cost and the time that it would take to start the business, mistakes that almost cost him the business.¹⁵¹

The most valuable financial resource to any small business is *cash*. Although earning a profit is essential to its long-term survival, a business must have an adequate supply of cash to pay its bills. Some entrepreneurs count on growing sales to supply their company’s cash needs, but this almost never happens. Growing companies usually consume more cash than they generate, and the faster they grow, the more cash they gobble up! Business history is littered with failed companies whose founders had no idea how much cash their businesses were generating and were spending cash as if they were certain there was “plenty more where that came from.” Four years after former professional baseball player Curt Schilling launched 38 Studios, a company he started to produce massive multiplayer online games, the company ran short of cash and defaulted on a \$1.1 million interest payment that was part of a \$75 million guaranteed loan. The company soon folded, 400 people lost their jobs, lenders lost \$110 million, and Schilling himself lost \$50 million.¹⁵²

We will discuss cash management techniques in Chapter 12.

Learn to Manage People Effectively

No matter what kind of business you launch, you must learn to manage people. Every business depends on a foundation of well-trained, motivated employees. No business owner can do everything alone. The people an entrepreneur hires ultimately determine the heights to which the company can climb—or the depths to which it can plunge. Attracting and retaining a corps of quality employees is no easy task, however. It remains a challenge for every small business owner. “In the end, your most dominant sustainable resource is the quality of the people you have,” says one small business expert.¹⁵³ At Chipotle Mexican Grill, Steve Ells is quick to point to the company’s dedicated 45,000 employees as one key to success. “We develop our people and promote from within,” says Ells, noting that 85 percent of Chipotle’s salaried managers and 96 percent of its hourly managers are promoted from within the company, and many of them started as burrito rollers in a restaurant.¹⁵⁴ We will discuss the techniques of managing and motivating people effectively in Chapter 16.

Set Your Business Apart from the Competition

The formula for almost certain business failure involves becoming a “me-too business”—merely copying whatever the competition is doing. Most successful entrepreneurs find a way to convince their customers that their companies are superior to their competitors even if they sell similar products or services. It is especially important for small companies going up against larger, more powerful rivals with greater financial resources. Ideally, the basis for differentiating a company from its competitors is founded in what it does best. For small companies, that basis often is customer service, convenience, speed, quality, or whatever else is important to attracting and keeping satisfied customers. We will discuss the strategies for creating a unique footprint in the marketplace in Chapters 5 and 8.

Maintain a Positive Attitude

Achieving business success requires an entrepreneur to maintain a positive mental attitude toward business and the discipline to stick with it. Successful entrepreneurs recognize that their most valuable resource is their time, and they learn to manage it effectively to make themselves and their companies more productive. None of this, of course, is possible without passion—passion for their businesses, their products or services, their customers, and their communities. Passion is what enables a failed business owner to get back up, try again, and make it to the top! One business writer says growing a successful business requires entrepreneurs to have great faith in themselves and their ideas, great doubt concerning the challenges and inevitable obstacles they will face as they build their businesses, and great effort—lots of hard work—to make their dreams become reality.¹⁵⁵

Conclusion

As you can see, entrepreneurship lies at the heart of this nation's free enterprise system: Small companies truly are the backbone of our economy. Their contributions are as many and as diverse as the businesses themselves. Indeed, diversity is one of the strengths of the U.S. small business sector. Although there are no secrets to becoming a successful entrepreneur, entrepreneurs can take steps to enhance the probability of their success. The remainder of this book will explore those steps and how to apply them to the process of launching a successful business with an emphasis on building a sound business plan.

- Chapter 2, "Ethics and Social Responsibility," describes a framework for making ethical decisions and ensuring that a business lives up to its social responsibility. Chapter 3, "Inside the Entrepreneurial Mind: From Ideas to Reality," explores the creative process that lies at the heart of entrepreneurship and offers practical tips on how you can stimulate your own creativity and that of your employees.
- Section 2, "The Entrepreneurial Journey Begins" (Chapters 4 to 7), discusses the classic start-up questions every entrepreneur faces, particularly conducting a feasibility analysis, creating a business model, developing a strategy, building a business plan, choosing a form of ownership, and alternative methods for becoming a business owner (franchising and buying an existing business).
- Section 3, "Launching a Business" (Chapters 8 to 13), focuses first on creating an effective bootstrap marketing plan for a small company. These chapters address creating an effective e-commerce strategy and establishing pricing and credit strategies. This section also explains how to develop the financial component of a business plan, including creating projected financial statements and forecasting cash flow. These chapters offer existing business owners practical financial management tools and explain how to find the sources of funding, both debt and equity, necessary to launch a business.
- Section 4, "Growing the Business" (Chapters 14 to 16), explains how to find the ideal location for a business and plan for an efficient layout and how to penetrate global markets successfully. This section also provides useful techniques for assembling a strong new venture team and leading its members to success and discusses the importance of creating a management succession plan to ensure that a company successfully makes the transition to the next generation of owners.

As you can see, the journey down the road of entrepreneurship will be fascinating and exciting. Let's get started!

Chapter Summary by Learning Objective

1. Define the role of the entrepreneur in business in the United States and around the world.

Entrepreneurship is thriving in the United States, but the current wave of entrepreneurship is not limited to the United States; many nations across the globe are seeing similar growth in their small business sectors. A variety of competitive, economic, and demographic shifts have created a world in which "small is beautiful."

Capitalist societies depend on entrepreneurs to provide the drive and risk taking necessary for the system to supply people with the goods and services they need.

2. Describe the entrepreneurial profile.

Entrepreneurs have some common characteristics, including a desire for responsibility, a preference for moderate risk, confidence in their ability to succeed, desire for immediate feedback, a high energy level, a future orientation, skill at organizing, and a value of achievement over money. In a phrase, they are tenacious high achievers.

3A. Describe the benefits of entrepreneurship.

Driven by these personal characteristics, entrepreneurs establish and manage small businesses to gain control over their lives, make a difference in the world,

become self-fulfilled, reap unlimited profits, contribute to society, and do what they enjoy doing.

3B. Describe the drawbacks of entrepreneurship.

Entrepreneurs also face certain disadvantages, including uncertainty of income, the risk of losing their investments (and more), long hours and hard work, a lower quality of life until the business gets established, high stress levels, and complete decision-making responsibility.

4. Explain the forces that are driving the growth of entrepreneurship.

Several factors are driving the boom in entrepreneurship, including the portrayal of entrepreneurs as heroes, better entrepreneurial education, economic and demographic factors, a shift to a service economy, technological advances, more independent lifestyles, and increased international opportunities.

5. Explain the cultural diversity of entrepreneurship.

Several groups are leading the nation's drive toward entrepreneurship: young people, women, minorities, immigrants, part-timers, home-based business owners, family business owners, copreneurs, corporate cast-offs, corporate dropouts, social entrepreneurs, and retired baby boomers.

6. Describe the important role that small businesses play in our nation's economy.

The small business sector's contributions are many. They make up 99.7 percent of all businesses, employ 49.2 percent of the private sector workforce, have created nearly two-thirds of the net new jobs in the economy, produce 46 percent of the country's private GDP, and account for 47 percent of all business sales.

7. Put failure into the proper perspective.

Entrepreneurs recognize that failure is a natural part of the creative process. Successful entrepreneurs have the attitude that failures are simply stepping-stones along the path to success, and they refuse to be paralyzed by a fear of failure.

8. Explain how an entrepreneur can avoid becoming another failure statistic.

Entrepreneurs can employ several general tactics to avoid these pitfalls. They should know their businesses in depth, prepare a solid business plan, manage financial resources effectively, understand financial statements, learn to manage people, set their businesses apart from the competition, and maintain a positive attitude.

Discussion Questions

- 1-1. What forces have led to the boom in entrepreneurship in the United States and across the globe?
- 1-2. What is an entrepreneur? Give a brief description of the entrepreneurial profile.
- 1-3. Coming up with great business ideas may seem easy, but only a true entrepreneur capitalizes on them to turn them into reality. Why are entrepreneurs considered an important agent of change in this global economy?
- 1-4. What are the major benefits of business ownership?
- 1-5. Which of the potential drawbacks to business ownership are most critical?
- 1-6. There are many forces that drive the entrepreneurial trend in today's economy. Some entrepreneurs have faced many challenges and setbacks that have prevented them from succeeding in their new ventures. Despite the major drawbacks, what's still feeding the entrepreneurial fire?
- 1-7. What contributions do small businesses make to our economy?
- 1-8. Describe the small business failure rate.
- 1-9. One hallmark of successful entrepreneurs is the ability to "fail intelligently". How can an entrepreneur fail intelligently?
- 1-10. Identify a diverse group of entrepreneurs and their accomplishments.
- 1-11. How can the small business owner avoid the common pitfalls that often lead to business failures?
- 1-12. As a business owner, is it necessary to know the contributing factors to the small business failure rate? Assuming that one is aware of all the aspects of one's business, how can a small business owner study the business in depth?
- 1-13. Who are serial entrepreneurs?
- 1-14. How does cloud computing allow entrepreneurs to build their companies without incurring high overhead costs?
- 1-15. What might be one of the main reasons for young people to be involved in business?
- 1-16. If one is planning to venture into business, what is the most crucial ingredient in preparing for a ensuring its success?

Beyond the Classroom . . .

- 1-17. Choose an entrepreneur in your community and interview him or her. What's the "story" behind the business?
- 1-18. How well does the entrepreneur fit the entrepreneurial profile described in this chapter?
- 1-19. What advantages and disadvantages does the entrepreneur see in owning a business?
- 1-20. What advice would he or she offer to someone considering launching a business?
- 1-21. Select one of the categories under the section "The Cultural Diversity of Entrepreneurship" in this chapter and research it in more detail. Find examples of business owners in that category and prepare a brief report for your class.
- 1-22. Search through recent business publications (especially those focusing on small companies) and find an example of an entrepreneur, past or present, who exhibits the entrepreneurial spirit of striving for success in the face of failure. Prepare a brief report for your class.

Endnotes

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