**CHAPTER 6: STARTING YOUR OWN BUSINESS:**

**THE ENTREPRENEURSHIP ALTERNATIVE**

**Chapter Overview**

In this chapter, we focus on pathways for entering the world of entrepreneurship, describing the activities of entrepreneurs, the different kinds of entrepreneurs, and the reason a growing number of people choose to be entrepreneurs. It discusses the business environment in which entrepreneurs work, the characteristics that help entrepreneurs succeed, and the ways they start new ventures. The chapter ends with a discussion of methods by which large companies try to incorporate the entrepreneurial spirit.

**Glossary of Key Terms**

**Angel investors:** wealthy individuals who invest directly in a new venture in exchange for an equity stake

**Classic entrepreneur:** person who identifies a business opportunity and allocates available resources to tap that market

**Debt financing:** borrowed funds that entrepreneurs must repay

**Entrepreneur:** person who seeks a profitable opportunity and takes the necessary risks to set up and operate a business

**Equity financing:** funds invested in new ventures in exchange for part ownership

**Intrapreneurship:** process of promoting innovation within the structure of an existing organization

**Lifestyle entrepreneur:** person who starts a business to reduce work hours and create a more relaxed lifestyle

**Seed capital:** initial funding needed to launch a new venture

**Serial entrepreneur:** person who starts one business, runs it, and then starts and runs additional businesses in succession

**Skunkworks:** project initiated by an employee who conceives an idea, convinces top management of its potential, and then recruits human and other resources from within the company to the idea into a commercial project.

**Social entrepreneur:** person who recognizes societal problems and uses business principles to develop innovative solutions

**Venture capitalists:** business firms or groups of individuals that invest in new and growing firms in exchange for an ownership share

**Learning Objective 1: Define what is an entrepreneur.**

*Unlike many small-business owners, entrepreneurs typically own and run their businesses with the goal of building significant firms that create wealth and add jobs. Entrepreneurs are visionaries. They identify opportunities and take the initiative to gather the resources they need to start their businesses quickly. Both managers and entrepreneurs use the resources of their companies to achieve the goals of those organizations.*

**Annotated Lecture Outline**

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| **Opening Vignette:  The Marketing Zen Group: From $1,500 to Millions in 5 Years**  In two years, Shama Kabani transformed the Marketing Zen Group from a one-person startup to a 30-person international firm. Kabani created her business at the age of 24 with $1500 of her own money and watched it blossom to a business that helps clients like Arhur Murray Dance Studios and k9cuisine.com enhance their advertising using modes of social media. Her clients remain happy with record results in both sales and web traffic. Kabani, who is also the author of a book on social media marketing, stands by her belief that the key to successful entrepreneurship is having a passion for what you do. |  |
| ***WHAT IS AN ENTREPRENEUR?*** | PowerPoint Slide 3 |
| * 1. An *entrepreneur* is a person who seeks a profitable opportunity and takes the necessary risks to set up and operate a business. | *Class Activity: Ask students to share examples of friends or family members who operate their own businesses.* |
| * 1. Entrepreneurs differ from small business owners and managers. |  |
| i. Managers direct the efforts of others to achieve organizational goals. |  |

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| ii. Entrepreneurs use the resources of their organizations—employees, money, and equipment—to realize their goals. |  |
| * 1. Entrepreneurs show a willingness to assume risks. | *Lecture Enhancer: How do entrepreneurs view risk differently than managers in a large company?* |

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**Assessment Check Answers**

**1.1 What tools do entrepreneurs use to create a new business?**

*Entrepreneurs combine their ideas and drive with money, employees, and other resources to create a business that fills a market need.*

**1.2 How do entrepreneurs differ from managers?**

*Managers direct the efforts of others to achieve an organization’s goals. The drive and impatience that entrepreneurs have to make their companies successful may hurt their ability to manage.*

**Learning Objective 2: Identify the different categories of entrepreneurs**.

*A classic entrepreneur identifies a business opportunity and allocates available resources to tap that market. A serial entrepreneur starts one business, runs it, and then starts and runs additional businesses in succession. A social entrepreneur uses business principles to solve social problems.*

**Annotated Lecture Outline**

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| ***CATEGORIES OF ENTREPRENEURS*** |  |
| 1. Entrepreneurs apply their talents in different situations. |  |
| 2. These differences can be classified into distinct categories: classic entrepreneurs, serial entrepreneurs, and social entrepreneurs. | PowerPoint Slide 4  *Lecture Enhancer: Think of a hypothetical example for each type of entrepreneur.* |
| * 1. A *classic entrepreneur* identifies a business opportunity and allocates available resources to tap into this market. |  |
| * 1. A *serial entrepreneur* starts one business, runs it, and then starts and runs additional businesses in succession. |  |
| * 1. A *social entrepreneur*recognizes societal problems and uses business principles to develop innovative solutions. |  |

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Assessment Check Answers

**2.1 What do classic entrepreneurs and social entrepreneurs have in common?**

*They both identify opportunities and allocate resources to pioneer new innovations.*

**2.2 Is a social entrepreneur simply a philanthropist?**

*A philanthropist generally promotes human welfare through charitable donations, whereas a social entrepreneur pioneers new ways to advance social causes and thus enhance social welfare.*

**Learning Objective 3: Explain why people choose entrepreneurship as a career path.**

*People choose this kind of career for many different reasons. Reasons most frequently cited include desires to be one’s own boss, to achieve financial success, to gain job security, and to improve one’s quality of life.*

**Annotated Lecture Outline**

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| ***REASONS TO CHOOSE ENTREPRENEURSHIP AS A CAREER PATH*** | PowerPoint Slide 5 |
| * 1. During one recent year, approximately 565,000 new businesses were created each month in the United States. |  |
| * 1. Publicity celebrating the success of entrepreneurs has caused an increased interest in entrepreneurial careers. | *Lecture Enhancer: Share an example of a “celebrity” entrepreneur.* |
| * 1. People choose to become entrepreneurs for one of four major reasons: a desire to be their own boss, succeed financially, attain job security, or improve their quality of life. | PowerPoint Slide 6  PowerPoint Slide 7  Figure 6.1 Why People Become Entrepreneurs |
| 1. **Being Your Own Boss** |  |
| a. Being in control of all decision making is a major draw. | *Class Activity: Discuss the unique stresses and challenges being your own boss might present.* |
| b. They want control over when and how they work. |  |

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| c. Being your own boss means personally engaging in most if not all of the company’s communications. | **Business Etiquette: Communicating By Email or Text Message: You Don’t Have to Be All Thumbs** |
| 1. **Financial Success** |  |
| * 1. Entrepreneurs are wealth creators. |  |
| * 1. Many entrepreneurs start their ventures with financial success as a main goal. |  |
| * 1. Path to riches is uncertain due to high failure rate. |  |
| 1. **Job Security** |  |
| * 1. Working for a company is no guarantee of job security, so many entrepreneurs create their own businesses for more control over job security. | *Lecture Enhancer:* *Why do many people choose entrepreneurship when considering job security?* |
| * 1. Most new jobs come from small businesses, and many come from new companies. |  |
| * 1. Overseas, workers are discovering the benefits of entrepreneurship compared to employment by big firms. |  |
| 1. **Quality of Life** |  |
| * 1. A *lifestyle entrepreneu*r is a person who starts a business to reduce working hours and to create a more relaxed lifestyle. |  |
| * 1. This does *not* mean they work fewer hours or with less intensity, but they enjoy the satisfaction of success. |  |

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Assessment Check Answers

**3.1 What are the four main reasons people choose to become entrepreneurs?**

*People generally choose to become entrepreneurs because they want to be their own boss; they believe they will achieve greater financial success; they believe they have more control over job security; and they want to enhance their quality of life.*

**3.2 What factors affect the entrepreneur’s job security?**

*An entrepreneur’s job security depends on the decisions of customers and investors and on the cooperation and commitment of the entrepreneur’s own employees.*

**Learning Objective 4: Discuss the environment for entrepreneurs.**

*A favorable public perception, availability of financing, the falling cost and widespread availability of information technology, globalization, entrepreneurship education, and changing demographic and economic trends all contribute to a fertile environment for people to start new ventures.*

**Annotated Lecture Outline**

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| ***THE ENVIRONMENT FOR ENTREPRENEURS*** | PowerPoint Slide 8 |
| Several factors support and expand opportunities for entrepreneurship: globalization, education, information technology, and demographic and economic trends. | Figure 6.2 Factors Supporting and Expanding Opportunities for Entrepreneurs |
| 1. **Globalization** | PowerPoint Slide 9 |
| * 1. Entrepreneurs are marketing their products abroad and hiring international talent. | *Lecture Enhancer: What factors may have contributed to the increased globalization of entrepreneurship?* |
| * 1. Growth of entrepreneurship is worldwide—in industrialized, newly industrialized, and emerging free-market countries. |  |
| * 1. In factor-driven economies, or countries that compete based on unskilled labor and natural resources like Bangladesh and Jamaica, on average, over 10 percent of adults are starting or managing a new business. | *Class Activity: Use the Web site www.alibaba.com and lead a discussion of the opportunity it offers entrepreneurs for the global marketing and purchasing of an incredible array of goods and parts for almost any imaginable business.* |
| * 1. Countries whose economies are driven by innovation, like Hong Kong and the United States, the average rate of entrepreneurship is under 4 percent. | Figure 6.3 Levels of Entrepreneurial Activity in Various Countries |
| 1. **Education** | PowerPoint Slide 10 |
| * 1. Many universities offer major programs in entrepreneurship, and hundreds more offer classes in starting a business. |  |
| * 1. Some schools offer opportunities to intern with a start-up or actually work toward launching a company. | *Class Activity: Survey the class to see how many students have taken at least one specialized course focusing on entrepreneurship.* |
| * 1. Many organizations have sprouted up in recent years to teach entrepreneurship to young people. |  |
| * 1. Students who graduate from entrepreneurship programs are three times more likely to be self-employed and start a business. | *Lecture Enhancer: What role does education play in encouraging graduates to start new businesses?* |
| 1. **Information Technology** |  |
| * 1. It helps entrepreneurs work quickly, provide customer service, increase sales, and have a professional image. | *Lecture Enhancer: Share an example of a successful business that was started by a student.* |
| * 1. With the use of smartphones and other wireless devices, along with instant Web distribution, a dorm-room innovator can compete with a much larger firm. |  |

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| c. Technology also has assisted in the tremendous increase of homepreneurs—entrepreneurs who run home-based businesses. | **Hit & Miss:**  **Businesses Based at Home Are Booming** |
| d. More than 90 percent of successful companies now use at least one social media tool. |  |
| 1. **Demographic and Economic Trends** |  |
| * 1. Immigrants to the United States are the most likely to start their own businesses, as well as those between the ages of 55 and 64. |  |
| * 1. An increasing number of Baby Boomers, who will have access to their retirement funds and home equity for financing, will become entrepreneurs. |  |
| * 1. College students also are more frequently starting their own businesses while still in school. | *Lecture Enhancer: Share an example of a successful business that was started by a student.* |
| * 1. Demographic trends create opportunities for entrepreneurs, particularly for convenience-related products and services. |  |

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**Hit & Miss:**

**Businesses Based at Home Are Booming**

**Summary**

Today, over 6.6 million home-based businesses contribute at least half of their owners’ household income. Some homepreneurs run businesses entirely based on technology, such as Web development. Other homepreneurs rely on technology to reach customers, fulfill orders, ship goods, or provide other services.

**Questions for Critical Thinking**

**1. Could home-based business succeed without the heavy use of information technology? Why or why not?**

*These home-based businesses would have difficulty succeeding without the use of technology because they must compete against larger companies that have access to more resources. The heavy use of information technology levels the playing field so that small, home-based businesses can reach and serve customers just as well as larger companies in many cases.*

**2. Outline your own idea for a home-based business that would rely on technology.**

*Answers will vary.*

Assessment Check Answers

**4.1 To what extent is entrepreneurship possible in different countries, and what opportunities does globalization create for today’s entrepreneurs?**

*In some countries, as many as one-tenth of adults are starting or managing a new business. As for globalization opportunities, entrepreneurs market their products abroad and hire international talent. Among the fastest- growing, small U.S. companies, nearly two of every five have international sales.*

**4.2 Identify the educational factors that help expand current opportunities for entrepreneurs.**

*More than 100 U.S. universities offer majors in entrepreneurship, dozens of others offer an entrepreneurship emphasis, and hundreds more offer courses in how to start a business. Also, organizations such as the Kauffman Center for Entrepreneurial Leadership, EntrePrep, and Students in Free Enterprise encourage and teach entrepreneurship.*

**4.3 Describe current demographic trends that suggest new goods and services for entrepreneurial businesses.**

*The aging of the U.S. population, the emergence of Hispanics as the nation’s largest ethnic group, and the growth of two-income families are creating opportunities for entrepreneurs to market new goods and services.*

**Learning Objective 5: Identify the characteristics of entrepreneurs.**

*Successful entrepreneurs share several typical traits, including vision, high energy levels, the need to achieve, self-confidence and optimism, tolerance for failure, creativity, tolerance for ambiguity, and an internal locus of control.*

**Annotated Lecture Outline**

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| ***CHARACTERISTICS OF ENTREPRENEURS*** | PowerPoint Slide 11 |
| a. Successful entrepreneurs often are likely to have had parents who were entrepreneurs. |  |
| b. Successful entrepreneurs are more likely to be curious, passionate, self-motivated, honest, courageous, and flexible. |  |
| c. Successful entrepreneurs typically have the following eight personality traits: | PowerPoint Slide 12  Figure 6.4 Characteristics of Entrepreneurs |
| **1. Vision** |  |
| * 1. Entrepreneurs begin with a *vision*, an overall idea for how to make their business idea a success. |  |
| * 1. They passionately pursue it. |  |
| * 1. True entrepreneurs know how to turn mistakes or failures into opportunities. |  |
| **2. High Energy Level** |  |
| a. Entrepreneurs willingly work hard to realize a vision. | *Class Activity: Ask students why optimism is an important trait for potential entrepreneurs.* |

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| b. Entrepreneurship requires hard work because of a small staff and limited financial resources. |  |
| c. Most entrepreneurs spend at least 70 hours a week on their new business. | *Lecture Enhancer: What are some personal-life issues that might hinder an entrepreneur’s success?* |
| **3. Need to Achieve** |  |
| a. They work hard because they want to excel. |  |
| b. They have a strong competitive drive. |  |
| c. They enjoy the challenge of reaching difficult goals and are dedicated to personal success. |  |
| **4. Self-Confidence and Optimism** |  |
| a. They believe in their ability to succeed and instill optimism in others. | *Class Activity: Ask students why optimism is an important trait for potential entrepreneurs.* |
| b. They see opportunities where others see danger lurking. |  |
| **5. Tolerance for Failure** |  |
| a. They often succeed by sheer will and keep trying regardless of the outcome. |  |
| b. They view setbacks and failures as learning experiences and are not discouraged. |  |

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| c. Truly successful entrepreneurs are willing to take responsibility for their mistakes. | **Solving an Ethical Controversy:**  **Entrepreneurs and Ethics: It’s Good Business** |
| **6. Creativity** |  |
| a. Some entrepreneurs find creative solutions to problems; others find creative ways to accomplish a task or provide a service; still others create entirely new products. |  |
| b. Among the top entrepreneurs in the world, creativity is the common denominator. |  |
| **7. Tolerance for Ambiguity** |  |
| a. Entrepreneurs take in stride the uncertainties associated with launching a venture. |  |
| b. Dealing with unexpected events is the norm for most entrepreneurs. |  |
| c. They deal with ambiguity by staying close to customers and adjusting products based on customer feedback. | *Lecture Enhancer: What type of ambiguity might an entrepreneur face in the fashion retail industry?* |
| **8. Internal Locus of Control** |  |
| a. Entrepreneurs believe that they control their own destinies. |  |
| b. They take personal responsibility and don’t blame others for setbacks or failures. |  |
| c. Take the test! Do you have the traits of an entrepreneur? | PowerPoint Slide 13  Figure 6.5 Quiz for Small Business Success |

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**Assessment Check Answers**

**5.1 What is meant by an entrepreneur’s vision?**

*Entrepreneurs begin with a vision, an overall idea for how to make their business idea a success, and then passionately pursue it.*

**5.2 Why is it important for an entrepreneur to have a high energy level and a strong need for achievement?**

*Because start-up companies typically have a small staff and struggle to raise enough capital, the entrepreneur has to make up the difference by working long hours. A strong need for achievement helps entrepreneurs enjoy the challenge of reaching difficult goals and promotes dedication to personal success.*

**5.3 How do entrepreneurs generally feel about the possibility of failure?**

*They view failure as a learning experience and are not easily discouraged or disappointed when things don’t go as planned.*

**Learning Objective 6: Summarize the process of starting a new venture.**

*Entrepreneurs must select an idea for their business, develop a business plan, obtain financing, and organize the resources they need to operate their start-ups.*

**Annotated Lecture Outline**

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| ***STARTING A NEW VENTURE*** | PowerPoint Slide 14 |
| 1. **Selecting a Business Idea** |  |
| * 1. The two most important considerations: |  |
| * + 1. finding something you love to do and are good at doing | *Lecture Enhancer: Why is it important that both of these criteria be considered before starting a business?* |
| * + 1. determining whether your idea can satisfy a need in the marketplace. |  |
| * 1. Entrepreneurs operate in industries in which a great deal of change is taking place. |  |
| * 1. This allows entrepreneurs to use their unique personality traits to their advantage. |  |
| * 1. Guidelines for choosing a business idea: | *Class Activity****:*** *Ask students to think about a basic service or product needed in their immediate community. Then obtain their comments and discuss their ideas.* |

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| * + 1. list your interests and abilities |  |
| * + 1. list businesses that match your interests and abilities |  |
| * + 1. identify future needs for products that no one yet offers |  |
| * + 1. evaluate existing goods and services and ways to improve them |  |
| * + 1. choose a business that offers profit potential |  |
| * + 1. conduct marketing research to determine potential profitability |  |
| * + 1. learn as much as you can about the appropriate industry. |  |
| * 1. Inventor–entrepreneurs who invent new products need to protect the rights to his or her invention by securing a patent. |  |
| 1. **Buying an Existing Business** | PowerPoint Slide 15 |
| * 1. Advantages: | *Lecture Enhancer: What are some possible disadvantages of buying an existing business?* |
| * + 1. employees already in place, established customers, and familiar suppliers |  |
| * + 1. good or service known in the marketplace |  |
| * + 1. necessary permits and licenses already secured |  |
| * + 1. easier to obtain financing. |  |

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| * 1. Most people want to buy healthy firms, but an experienced entrepreneur might purchase a struggling business with the intent of turning it around. | *Lecture Enhancer: What are some possible disadvantages of buying an existing business?* |
| 1. **Buying a Franchise** | PowerPoint Slide 16 |
| * 1. Buying a franchise is a less risky way of buying a business. |  |
| * 1. Entrepreneurs should thoroughly research a franchise before buying one. |  |
| * 1. One area of franchising that is experiencing tremendous growth is goods and services that are targeted for children and their parents. |  |
| **4. Creating a Business Plan** | PowerPoint Slide 17 |
| a. Entrepreneurs often seize opportunities as they arise and change course as necessary. |  |
| b. Flexibility seems to be the key to start-ups, especially in rapidly changing markets. | *Class Activity: Discuss the benefits of developing a business plan, even if funds are already available.* |
| c. However, at least some planning is necessary, particularly if an entrepreneur is seeking funds from outside sources. | Appendix D  Table 6.1 Online Resources for Preparing a Business Plan |

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| **5. Finding Funding** | PowerPoint Slide 18 |
| * 1. *Seed capital* is the initial funding needed to launch a new venture. | Table 6.2 Funding Used by Entrepreneurs for Start-ups |
| * 1. Many entrepreneurs rely on personal savings or loans from business associates, family members, or even friends for start-up funds. |  |
| * 1. *Debt financing* is borrowed funds that entrepreneurs must repay. | *Lecture Enhancer: What are the drawbacks to depending upon debt financing to start a business?* |
| * + 1. This includes loans from banks and finance companies, personal credit cards, or friends and family. | *Class Activity: Lead a discussion of possible pitfalls of having friends or family invest in your business.* |
| * + 1. Banks are reluctant to lend money to start-ups because of their high failure rate. |  |
| * + 1. Some new firms can get Small Business Administration (SBA)-backed loans. |  |
| * + 1. Banks are more willing to make loans to entrepreneurs who have been in business for a while, show a profit on rising revenues, and need funds to finance expansion. |  |
| * + 1. Local community banks often are more interested in small-business loan applications than are the major national banks. |  |
| * + 1. Even entrepreneurs who have previously received funding from banks have experienced a credit crunch in recent years. |  |
| * 1. *Equity financing* refers to funds invested in new ventures in exchange for part ownership. |  |
| * + 1. An entrepreneur does not have to repay equity financing. |  |
| * + 1. Sources of equity financing include family and friends, business partners, venture capital firms, and private investors. |  |
| * + 1. Entrepreneurs can benefit from the business experience investors bring to the partnership. |  |
| * + 1. Partners do not always agree on business decisions, and sometimes one partner may have to buy out the other in order to keep operating. |  |
| * + 1. A *venture capitalist* is a firm or group of individuals that invests in new and growing firms in exchange for an ownership share. |  |
| – Venture capitalists typically back companies in high technology industries such as biotechnology. |  |

|  |  |
| --- | --- |
| – Venture capitalists require a combination of extremely rare qualities, like innovative technology, potential for rapid growth, a well-developed business model, and an impressive management team. |  |
| * + 1. An *angel investor* is a wealthy individual who invests money directly into new ventures in return for an equity stake. |  |
| – Angel investors focus primarily on new ventures. |  |
| – Some are entrepreneurs themselves who support and mentor aspiring newcomers. |  |
| – Because most entrepreneurs have trouble finding wealthy private investors, angel networks match business angels with start-ups in need of capital. |  |
| **6. Government Support for New Ventures** | PowerPoint Slide 19 |
| a. The Small Business Administration (SBA), state and local agencies, and business incubators all offer support for entrepreneurs. |  |
| b. *Enterprise zones* are specific geographic areas designated for economic revitalization. | *Lecture Enhancer: What are some advantages to starting a business in an enterprise zone?* |
| c. Legislation can encourage investment in the U.S. economy. |  |
| – One law sets aside visas for new ventures in a *targeted employment area*—a rural area or an area that has experienced an unemployment rate of at least 150 percent of the national average. |  |

**Notes:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

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**Assessment Check Answers**

**6.1 What are the two most important considerations in choosing an idea for a new business?**

*Two important considerations are finding something you love to do and are good at doing and determining whether your idea can satisfy a need in the marketplace.*

**6.2 What is the difference between debt financing and equity financing?**

*Debt financing is money borrowed that must be repaid. Equity financing is an exchange of ownership shares in their company for money supplied by one or more investors.*

**6.3 What is seed capital?**

*Seed capital is the money that is used to start a company.*

**Learning Objective 7: Explain intrapreneurship.**

*Organizations encourage intrapreneurial activity within the company in a variety of ways, including hiring practices, dedicated programs such as skunkworks, access to resources, and wide latitude to innovate within established firms.*

**Annotated Lecture Outline**

|  |  |
| --- | --- |
| ***INTRAPRENEURSHIP*** | PowerPoint Slide 20 |
| *Intrapreneurship* is the process of promoting innovation within the structure of an existing organization. |  |
| * 1. Today’s firms encourage innovation in order to maintain competitive advantage. | *Lecture Enhancer: What is another possible reason for companies to support rather than discourage* intrapreneurship? |
| * 1. 30 percent of large firms now allocate funds toward intrapreneurship. |  |

**Notes:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

Assessment Check Answers

**7.1 Why would large companies support intrapreneurship?**

*Large firms support intrapreneurship in order to retain an entrepreneurial spirit and to promote innovation and change.*

**7.2 What is a skunkworks project?**

*A skunkworks project is a project that is initiated by an employee who conceives an idea and then recruits resources from within the company to turn that idea into a commercial product.*

**Answers to Review Questions**

**1. Identify the three categories of entrepreneurs. How are they different from each other? How might an entrepreneur fall into more than one category?**

*The three categories include the classic entrepreneur, the serial entrepreneur, and the social entrepreneur.*

* + *Classic entrepreneurs are risk takers who see an opportunity and allocate resources to tap that market.*
* *Serial entrepreneurs do the same thing but go on to start more businesses, often building on each idea as they go.*
* *Social entrepreneurs pioneer new ways to advance social causes and thus enhance social welfare.*

*All three of these use drive, creativity, and innovation to pursue their ideas; however, the first two take risks to bring their visions to life by working independently on their own ideas and goals, whereas the last one pioneers innovations to benefit humanity.*

**2. People often become entrepreneurs because they want to be their own boss and be in control of most or all of the major decisions related to their business. How might this relate to potential financial success? If there are downsides, what might they be?**

*Being in control of most or all of the decisions in a business allows an entrepreneur to direct the company in a manner that will result in greater personal financial success. An entrepreneur is more motivated to carefully consider decisions when his or her own financial success is directly related to those decisions. One downside of this relationship is that an entrepreneur’s personal finances can be directly harmed by poor decision making. Another downside may be the personal stress that the increased importance of decision making places on the entrepreneur.*

**3. How have globalization and information technology created new opportunities for entrepreneurs? Describe current demographic trends that suggest new goods and services for entrepreneurial businesses.**

*Globalization has allowed entrepreneurs to reach way beyond previous limits to market products abroad, hire international talent, and form business partnerships with foreign partners. Information technology has provided the tools of computer systems and communications networks to enable entrepreneurs to compete with large companies, work quickly and efficiently, handle massive amounts of data, provide attentive customer service, increase sales, and project a professional image.*

*Recent demographic trends, such as the aging of the population, an increase in the number of two-income families, and an increase in the number of single-parent households, suggest that the market is growing for entrepreneurial businesses that address the need for convenience-related products and services as well as products and services related to children and older adults.*

**4. Identify the eight characteristics that are attributed to successful entrepreneurs. Which trait or traits do you believe are the most important for success? Why? Are there any traits that you think might actually contribute to potential failure? If so, which ones, and why?**

*The eight characteristics attributed to successful entrepreneurs include vision, a high energy level, a need to achieve, self-confidence and optimism, a tolerance for failure, creativity, a tolerance for ambiguity, and an internal locus of control*.

*Answers regarding traits will vary among students, based on their own ideas about entrepreneurs. It could be argued that an individual who lacks any one of the eight major traits may not make it. The point also could be made that vision is at the center of it all, that without vision, there would be no reason to be optimistic and self-confident or to create. Students also might point out that an inflated level of self-confidence might hinder an entrepreneur’s ability to clearly assess potential pitfalls when making decisions.*

**5. When selecting a business idea, why is the advice to “do what makes you happy” and “be true to yourself” so important?**

*It is important to select a business idea that makes one happy because starting a new business requires a huge personal commitment of both time and money.*

**6. Suppose an entrepreneur is considering buying an existing business or franchise. Which of the eight entrepreneurial traits do you think would most apply to this person, and why?**

*Buying a business involves less risk than starting a new one, as workers already are in place, customers are established, suppliers are familiar, the good or service is known in the marketplace, permits and licenses have been taken care of, and financing may be easier to obtain. In addition, purchasing an existing business or franchise requires less creativity and vision. A person who is attracted to buying an existing business or franchise therefore would be more likely to have a high energy level, a drive to achieve, a tolerance for failure, and be self-confident and optimistic rather than to have vision, creativity, a tolerance for ambiguity, and an internal locus of control.*

**7. Imagine that you and a partner are planning to launch a business that sells backpacks, briefcases, and soft luggage made out of recycled materials. You’ll need seed capital for your venture. Outline how you would use that seed capital.**

*Answers will vary but should touch upon the costs involved with obtaining the recycled materials, purchasing any necessary manufacturing equipment or materials, marketing the products, and distributing the products.*

**8. Describe the two main types of financing that entrepreneurs may seek for their businesses. What are the risks and benefits involved with each?**

*Debt financing refers to borrowed money that must be repaid, including loans from banks, finance companies, credit cards, or individuals. It provides a stable source of funds from a reputable institution for the price of a set interest rate, but it may take some effort to obtain because banks often do not lend money to risky start-ups. Credit cards are easy to use by charging the cost of start-up fees, supplies, equipment, inventory, etc., but can be extremely expensive with interest rates up to 20 percent.*

*Equity financing refers to the exchange of a share of ownership in a company for money supplied by one or more investors. It requires no repayment of funds but instead a share of profits, and allows those with good ideas but little cash to team up with investors who have money, a keen sense of the market, and proven business skills. Drawbacks include partners who disagree on the firm’s direction, investors who withdraw if profits drop, and investing firms that run out of funds to share.*

**9. What is an enterprise zone? Describe what types of businesses might benefit from opening in such a zone—and how their success might be interconnected.**

*An enterprise zone is a specific geographic area designated for economic revitalization. Enterprise zones encourage investment, often in distressed areas, by offering tax advantages and incentives to businesses locating within the boundaries of the zone. Businesses that serve the specific needs of the people living in these areas would benefit from opening in an enterprise zone, as well as those that have difficulty obtaining traditional forms of funding. The success of these businesses might be interconnected because, due to their geographical proximity, they might serve as each other’s suppliers or distributors.*

**10. What is intrapreneurship? How does it differ from entrepreneurship?**

*Intrapreneurship is the process of promoting innovation within the structure of an existing organization. Intrapreneurship differs from entrepreneurship because there is much less risk and no monetary investment involved; however, there are more restrictions than entrepreneurship because all efforts must be in line with the direction of the corporate leaders.*

**Projects and Teamwork Applications**

1. Ask students which entrepreneur they picked and why. What traits did they recognize in this person? What setbacks and challenges has the entrepreneur faced? How were those challenges overcome? What has the person contributed to his or her industry? To the overall economy?

2. Talking about the latest or most intriguing trends can lead into an enlightening discussion. Have students talk about the trends they noticed and the new businesses they created in response to these trends. Were most of the trends well-known to the class? Where some trends so cutting-edge or up-to-the-minute that few were aware of them?

3. Have students talk about which of the eight entrepreneurial traits they think they possess. Ask others in the class to add traits that they may see in each other as the discussion progresses. Which do they feel is the most important trait?

4. Have a fun and quick brainstorming session by asking students to quickly report what they chose as something they love and, using minimal words, how they would incorporate that passion into a related business. Allow others to add additional businesses that might fit that person’s “love.” Move through the class quickly, allowing the creative ideas to flow.

5. Ask students what area they chose and how they made decisions regarding an enterprise zone for this area. What businesses do they think would work well in their selected area? Why?

Web Assignments

1. **Tools for entrepreneurs.** American Express has established something it calls “Open Forum” to allow entrepreneurs and small business owners to communicate with one another and share ideas. Visit the Open Forum Web site and review the available material. Prepare a short report on how Open Forum could help an entrepreneur start and grow a business.  
   <http://www.openforum.com/>
2. **Venture capitalists.** Venture capital firms are an important source of financing for entrepreneurs. Most actively solicit funding proposals. Go to the Web site shown below to learn more about venture capital. What are some of the famous businesses that were originally financed by venture capitalists?  
   <http://www.nvca.org/>
3. **Getting started.** Visit the Web site of *Entrepreneur* magazine and click on “Startups.” How should you go about researching a business idea? What are the steps involved in getting a product to market?  
   <http://www.entrepreneur.com>

*Note:* Internet Web addresses change frequently. If you do not find the exact sites listed, you may need to access the organization’s home page and search from there or use a search engine such as Bing or Google.

## Case 6.1

**Glassybaby Does “One Thing Really Well”**

**Answers to Questions for Critical Thinking**

1. Rhodes says she wasn’t intending to start a business. Which qualities of a successful entrepreneur does Rhodes probably have?

*Rhodes demonstrates several of the characteristics necessary for being a successful entrepreneur. She possesses creativity and solid visions about what would work in the market, as she used her vision of how candles that comforted her would help others have the same experience. She also exhibits a high tolerance for failure and ambiguity. Although her store proved unsuccessful in New York thus far, Rhodes refused to give up but rather adjusted her plan to incorporate same-day delivery in order to cater to this demographic and hopefully boost sales.*

2. If you were an entrepreneur like Rhodes, would you expand Glassybaby’s product line? Why or why not?

## *Answers will vary. It could be argued that it is a good idea, as Rhodes describes, to keep it simple for the time being. Although she is successful in Seattle, she still has plans to work out in New York. Her New York store could be an indicator of whether she would be successful with expansion plans elsewhere. Also, Rhodes may need additional funding from bank loans in order to open more Glassbaby shops. In this case, banks might want to see more evidence of a rising revenue before they agree to loan her money.*

## Case 6.2

**Small Businesses Are Big into Social Networking**

**Summary**

*Entrepreneurs have been quick to embrace social media as a tool for communication because one of their biggest challenges is getting the word out about their businesses to potential investors, suppliers, the media, and customers. If used skillfully, many believe social media can help level the playing field between small businesses and their giant competitors. However, surveys show that only 22 percent of firms with fewer than 100 employees reported a direct increase in profits as a result of social media use. Others caution that social media networking eats up valuable time, particularly for an entrepreneur whose day usually is chock full of tasks ranging from design to distribution and manufacturing to marketing. Most experts, including experienced* *entrepreneurs, support the use of social media but with moderation.*

**Answers to Questions for Critical Thinking**

**1. How will social networking change the business environment for entrepreneurs?**

*Social networking could change the business environment for entrepreneurs by providing ways to find investors, by marketing their products or services to a larger market, and by using feedback from customers to improve the quality of their products or services.*

**2. How might entrepreneurs use social media to secure financing?**

*An entrepreneur could search social networking sites, such as LinkedIn, to find potential investors who have backgrounds and interests related to his or her business. In addition, posting his or her business proposal on a professional social networking site increases the likelihood of finding an investor.***CHAPTER 6: COLLABORATIVE LEARNING EXERCISES**

## 1 – Entrepreneurial Characteristics

Learning Objective: 5

Purpose:

To encourage students to examine in-depth the qualities of successful entrepreneurs.

Background:

Although many college students plan to start their own businesses, clearly not all of them will actually take the plunge. This exercise is designed to help your students flesh out the entrepreneurial profile and to examine their personal characteristics in light of that benchmark.

Relationship to Text:

Characteristics of Entrepreneurs – Learning Objective 5

Estimated Class Time:

### Approximately 20 minutes

Preparation/Materials:

### None needed

Exercise:

As a whole class, brainstorm on the board a list of successful entrepreneurs, big and small. After your list is developed (10–25 names), divide your class into groups of three to five students. Give the groups approximately five minutes to develop a list of entrepreneurial characteristics. How many group members believe that they have most (or all!) of these qualities?

Reconvene as a class, and develop a more complete list of entrepreneurial characteristics on the board. Ask each group to share how many of them believe they possess these characteristics. Compare the list of qualities to the list in the book and also to your list of actual entrepreneurs. How many of the entrepreneurs seem to actually have these characteristics?

Ask for a new tally of students who believe that they possess most or all of these qualities (and you will probably notice a significant change in the number). Can you succeed as an entrepreneur without them? Why or why not?

## 2 – Brainstorming

Learning Objective: 5

Purpose:

To give budding entrepreneurs (and the rest of the class) an opportunity to exercise their creativity.

Background:

Although most of your students will understand the concept of brainstorming, many may not have experienced the benefits firsthand—increased creativity and energy, better solutions to festering problems, etc. This exercise is designed to give them that experience, working with a topic that most students find engaging and fun.

Relationship to Text:

Creativity and the Creative Process – Learning Objective 5

Estimated Class Time:

### Approximately 20 minutes

Preparation/Materials:

### None needed

Exercise\*:

Tell your class that their challenge is to think of as many ways as possible to get teens and adults to buy and use sugar-free Kool-Aid (you may even want to write this at the top of the board). Your job is to facilitate the brainstorming session by writing ideas on the board as students shout them out loud. Clearly, this (and any other brainstorming) works best if you are enthusiastic. As soon as you have written one idea on the board, turn around for the next one. When there are lulls (and there will be), you can help the class refocus by rereading some of the ideas on the board. Also, do not allow criticism or comments. Squelch issues lightly so as not to diminish a playful atmosphere. When you have ideas, share them, too.

When the class runs out of ideas, you will probably have a lengthy list. Take a few minutes to read the ideas aloud, and ask your class to pick the ones with the most potential. You will probably find four or five truly excellent ideas.

Before you move on, ask your class their thoughts about this exercise. They will likely be surprised at the quality and scope of the ideas that bubble-up through the brainstorming process.

\*Source: Daft, *Management, Instructor’s Guide.*

## 3 – Risk Taking

Learning Objective: 5

## Purpose:

## To help students uncover and consider their personal perspective on risk taking.

## Background:

Taken together, two of the key entrepreneurial characteristics—tolerance for failure and tolerance for ambiguity—add up to a willingness and ability to take risks. Clearly, there are many different types and levels of risk. Furthermore, our ability to take risks changes throughout our lives. This exercise is designed to help students determine how they relate to risk taking right now; what does taking risks mean to them? NOTE: This exercise works best in groups that are no larger than 25 to 30 people.

Relationship to Text:

Tolerance for Failure and Ambiguity – Learning Objective 5

Estimated Class Time:

### Approximately 15–20 minutes

Preparation/Materials:

### None needed

Exercise\*:

Announce to the class that you will need a volunteer to step to the front of the room. Tell them that you cannot share the details of the activity, but that it will involve some risk (nothing, of course, that would hurt or embarrass the volunteer in any way). Once you have the first volunteer, announce that—on second thought—you will really need two volunteers. Then ask for four, five, eight, ten … continually warning potential volunteers of the “safe” risk. Eventually call the whole class to the front of the room. Then… announce that the exercise—a demonstration of the student response to risk—is over. If possible, seat the class in a circle for follow-up discussion.

Discussion questions: Why didn’t everyone volunteer at first? Why did more and more people volunteer, as the group at the front of the room got larger? Ask the first and the last volunteers to share how they felt about the risk. What about the people in the middle? Finally, steer your students’ attention back to entrepreneurship. How does this exercise relate to risk in business? What is the difference between smart and reckless risk? How can risk taking help and hinder entrepreneurs?

\*Source: Steven Schwartz, President, Tikshur Learning Systems at [www.tikshur.com](http://www.tikshur.com).

## 4 – Entrepreneur Potential Assessment

Learning Objective: 5

Purpose:

### To help students assess their personal entrepreneurial potential.

Background:

The textincludes an excellent assessment on entrepreneurial potential, but this assessment becomes even more engaging if you give students a chance to compare their scores to the rest of the class. This exercise is designed to do just that.

Relationship to Text:

Entrepreneur Potential Assessment Form – Learning Objective 5

Estimated Class Time:

Approximately 10 minutes

Preparation/Materials:

### None needed

Exercise:

Give your students the quiz. Read each question aloud, and encourage them repeatedly to be completely honest and thoughtful in their responses. When they have completed the quiz, ask them to share via a show of hands how many people fall into each of the four categories. (It helps create excitement if you offer a special goodie—anything from a piece of candy to a handful of extra credit points—to the highest and lowest scorers.)

Ask for volunteers from each group to share their individual perspectives. Are the top scorers really planning to start their own businesses? When? Why? What kinds? What are the aspirations of the bottom scorers? Are there any surprises? Based on the sample of this class, do your students believe that the quiz is a strong predictive tool?

**5 – Selecting a Business Idea**

Learning Objective: 6

Purpose:

### To give students experience selecting a business idea with the help of their peers.

Background:

Some of the best business concepts—from high-profile corporations such as eBay to countless, successful smaller businesses—stem from individuals marketing solutions to problems that plagued them or their families on a personal basis. This exercise is designed to demonstrate to students that their own lives can be a rich source of new business ideas, especially when they leverage the creativity of their friends and colleagues.

Relationship to Text:

Selecting a Business Idea – Learning Objective 6

Estimated Class Time:

### Approximately 20–25 minutes

Preparation/Materials:

### None needed

Exercise:

Ask each class member to write down three to five things that he or she finds frustrating on a daily basis. If they have a hard time starting, you may want to throw out a couple of examples that give them the basic idea without quashing their creativity, e.g., “I am very frustrated that my kids don’t like to eat vegetables.” Encourage them to be honest … to use real problems.

Divide your class into groups of three to five students, and ask the groups to exchange lists. Then, give each student three minutes to choose one problem on the list that he or she received, and to develop a product or service idea that could solve that problem. Next, direct the students to share their ideas with the rest of their group, and to further develop each one. After approximately five minutes, ask each group to choose their one best concept and to present it to the class.

You should end up with five or six excellent ideas. To add some competition and energy to the process, you may want to have the class vote on the best idea (but do not allow any group to vote on their own!).