SECTION I. THE CHALLENGE OF ENTREPRENEURSHIP

CHAPTER 1. THE FOUNDATIONS OF ENTREPRENEURSHIP

Part 1: Learning Objectives

1. Define the role of the entrepreneur in business in the United States and around the world.
2. Describe the entrepreneurial profile.

3-A. Describe the benefits of entrepreneurship.

3-B. 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.
9. Discover how the skills of entrepreneurship, including critical thinking and problem solving, written and oral communication, leadership, creativity, and ethics and social responsibility, apply to every career choice and every avenue of life.

Part 2: Class Instruction

The World of the Entrepreneur *LO 1*

Around the world growing numbers of people are realizing their dreams of owning and operating their own business. Entrepreneurship is thriving and is essential to a strong global economy. Downsizing by large companies has resulted in a new population of entrepreneurs. Today small companies have the competitive advantage as they can move faster to exploit market opportunities and use modern technology to quickly create products and service that once took years.

A study by the Global Entrepreneurship Monitor (GEM) found that 68 percent of working adults around the world perceive entrepreneurs as having high status. Eastern European countries, China, Vietnam, and other nations whose economies were state–

controlled and centrally planned now hold potential for entrepreneurs. (Refer to Figure 1.1 and Table 1.1)

What Is an Entrepreneur? LO 2

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.

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. (Refer to Figure 1.2)

Studies have identified several characteristics entrepreneurs tend to exhibit, but none of them has isolated a set of traits required for success. A brief summary of the entrepreneurial profile includes:

1. Desire for responsibility
2. Preference for moderate risk *(risk eliminators)*
3. Willingness to break rules
4. Self-reliance
5. Confidence in their ability to succeed
6. Determination
7. Desire for immediate feedback
8. High level of energy
9. Competitiveness
10. Future orientation. ***Opportunity entrepreneurs*** start businesses because they spot an opportunity in the marketplace. ***Necessity entrepreneurs*** start businesses because they cannot find work any other way. ***Serial entrepreneurs*** repeatedly start businesses and grow them to a sustainable size before striking out again.
11. Skill at organizing
12. Value of achievement over money

Other characteristics of entrepreneurs include:

High degree of commitment

Tolerance for ambiguity

Creativity

Flexibility

Resourceful. ***Bootstrapping*** is 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

Tenacity

Entrepreneurs are not of one mold; no one set of characteristics can predict who will become entrepreneurs and whether they will succeed. Diversity seems to be a central characteristic of entrepreneurs. Anyone can become an entrepreneur. It is a practical discipline; it is a skill that most people can learn. (Refer to Figure 1.3)

Consider using You Be the Consultant: "Making the Most of an Opportunity," or You Be the Consultant: "Decoding the DNA of the Entrepreneur" at this point.

The Benefits of Entrepreneurship LO 3A

The primary ***benefits*** entrepreneurs enjoy include the:

Opportunity to Create Your Own Destiny

Opportunity to Make a Difference. ***Social entrepreneurs*** use their skills not only to create profitable businesses, but also to achieve economic, social and environmental goals for the common good.

Opportunity to Reach Your Full Potential

Opportunity to Reap Impressive Profits

Opportunity to Contribute to Society and Be Recognized for Your Efforts

Opportunity to Do What You Enjoy and Have Fun at It

The Potential Drawbacks of Entrepreneurship

LO 3B

With these potential rewards, entrepreneurship also presents risk and uncertainty. 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. Entrepreneurs may experience:

Uncertainty of Income: The entrepreneur is the last one to be paid, as employees must be paid first. While it is possible for an entrepreneur to earn more working for themselves, their may end up earning less.

Risk of Losing Your Entire Investment

Long Hours and Hard Work

Lower Quality of Life Until the Business Gets Established

High Levels of Stress

Complete Responsibility

Discouragement

Behind the Boom: What's Feeding the Entrepreneurial Fire LO 4

Some of the most significant factors that have led to this age of entrepreneurship include:

- ***Entrepreneurs as heroes***
- ***Entrepreneurial education***
- ***Demographic factors.*** See Figure 1.4 for global entrepreneurial activity by age group.
- ***Shift to a service economy***
- ***Technology advancements***
- ***Independent lifestyle***
- ***Outsourcing***
- ***The Internet, cloud computing, and mobile marketing***. ***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. (Refer to Figure 1.5)

- ***International opportunities***. ***Micromultinationals*** are small companies that operate globally from their inception.

Consider using You Be the Consultant: "College: The Ideal Place to Launch a Business" at this point.

The Cultural Diversity in Entrepreneurship LO 5

Entrepreneurs are found virtually every walk of life and include:

Young Entrepreneurs

Women Entrepreneurs. (Refer to Figure 1.6.)

Minority Enterprises. (Refer to Figure 1.7.)

Immigrant Entrepreneurs

Part-Time Entrepreneurs

Home-Based Businesses

Family Businesses. ***Family-owned business*** includes two or more members of a family with financial control of the company.

Copreneurs. ***Copreneurs*** are entrepreneurial couples who work together as co-owners of their businesses.

Corporate Castoffs

Encore Entrepreneurs

Retiring Baby Boomers. (Refer to Figure 1.8)

The Power of "Small" Business LO 6

Because big business is more visible than small business, most people underestimate the role of the small firm in the U.S. economy. Approximately 99.7 percent of all businesses in the United States are considered small. While there is no universal definition of what constitutes a small business, a common delineation of a ***small business*** is one that employs fewer than 100 people.

The majority of small companies are concentrated in the service, construction and retail industries. (Refer to Figure 1.9)

Small companies account for 43 percent of total private payroll in the United States. Small businesses actually create more jobs than do big businesses. Between 1993 and 2013 small companies created 63 percent of the net new jobs in the U.S. economy.

Gazelles are 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 LO 7

Because of their limited resources, inexperienced management, and lack of financial stability, small businesses suffer relatively high mortality rates. Two years after start-up, 21 percent of small companies have failed, and after five years, 51 percent have failed. (Refer to Figure 1.10)

Entrepreneurs recognize that failure is likely to be part of their lives, but they are not paralyzed by that fear. Failure is an inevitable part of being an entrepreneur, and true entrepreneurs don't quit when they fail. 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. Success requires both persistence and resilience, the ability to bounce back from failure.

The following material in this section is in addition to the text.

The Ten Deadly Mistakes of Entrepreneurship

Studies have indicated that there are common reasons for new business ventures to fail. These causes of small business failure may include:

1. Management mistakes
2. Lack of experience
3. Poor financial control
4. Weak marketing efforts
5. Failure to develop a strategic plan

6. Uncontrolled growth
7. Poor location
8. Improper inventory control
9. Incorrect pricing
10. Inability to make the "entrepreneurial transition"

How to Avoid the Pitfalls LO 8

Ways to avoid becoming another failure statistic and gain insight into what makes a successful business include:

Know Your Business in Depth

Build a Viable Business Model – and Test It

Use Lean Start-up Principles

Know When to Pivot

Develop a Solid Business Plan

Manage Financial Resources

Understand Financial Statements

Build the Right Team

Learn to Manage People Effectively

Set Your Business Apart from the Competition

Maintain a Positive Attitude

Developing Skills for Your Career LO 9

The skill sets that are desired by employers that are a part of this book include:

Critical Thinking and Problem Solving

Written and Oral Communication

Teamwork and Collaboration

Leadership

Creativity

Ethics and Social Responsibility

Conclusion

Entrepreneurs are a key part of America's free enterprise system, and as we will discover, are changing the business of the world as well. Their contributions are as many and as diverse as the businesses themselves. There are steps that entrepreneurs can take to enhance the probability of their success.

The remainder of this book will explore the steps to launch a successful business. This course emphasizes establishing a clear understanding of the entrepreneurial environment and using that information to build a sound business plan.

Part 3: Chapter Exercises

You Be the Consultant: Making the Most of an Opportunity

1. **What benefits do entrepreneurs such as Bill Mitchell, John Carrington, and Kevin Maloney gain from creating businesses of their own rather than working for someone else? (LO 3-A) (AACSB: Reflective thinking)**

The chapter identifies various benefits of entrepreneurship. Many of them apply to Bill Mitchell in creating Billiam, and John Carrington and Kevin Maloney in creating ZVerse. These include: the opportunity to create their own destiny, the opportunity to make a difference (in the case of ZVerse, to bring manufacturing back to the United States), the opportunities to reach one's full potential, and the opportunity to do what one enjoys and have fun doing it.

2. **What risks do these entrepreneurs take on when they started their businesses? (LO 3-B) (AACSB: Application of knowledge)**

Students will identify the many risks that entrepreneurs face and say that these risks apply to the three entrepreneurs profiled in this feature. Bill Mitchell faces uncertainty of income in his venture as do John Carrington and Kevin Maloney in theirs. In addition, these entrepreneurs face the following risks: the risk of losing their entire investment (students should recall that Bill Mitchell sold his car to pay for facility lease!), the arguably long hours and hard work that they put in, the lower quality of life until the business gets established, the high levels of stress, complete responsibility (here, Bill Mitchell faces a greater risk because he is all alone in his venture, while John has Kevin in theirs), and possible discourage as their business tries to establish itself.

3. Is the way that these entrepreneurs discovered their business opportunities typical? Explain. (LO 2) (AACSB: Application of knowledge)

Entrepreneurs discover their business opportunities in a variety of ways – either by facing a pain point of their own that they attempt to address that leads to an opportunity, or by seeing a market opening and seeking to fill it. While John Carrington and Kevin Sweeny are probably the more typical of the two, in that their interest in 3D printing lead to spotting an opportunity, perhaps Bill Mitchell's path is less typical. He chanced upon sewing via reverse engineering, this lead to sewing work while in college, and this work led to making custom jeans for his clients.

You Be the Consultant: Decoding the DNA of the Entrepreneur

2. How do the characteristics at the model's nucleus—opportunistic mindset and tolerance of risk and failure—fit together in the entrepreneur's mind? (LO 2) (AACSB: Reflective thinking)

The internal locus of control describes an entrepreneur's willingness to accept risk and failure, blended with his or her ability to identify opportunities that others might miss. Entrepreneurs understand that problems create opportunities for those who are prepared to capitalize on them. Entrepreneurs recognize risks and the potential for failure, but take steps to reduce risks by preparing themselves well.

4. 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. (LO 2) (AACSB: Application of knowledge)

Expect students to discuss their entrepreneur's attitudes about risk and failure, as well as how the entrepreneur recognized the opportunity that paved the way for their business' success. Ideally students will ask interview questions about the entrepreneur's vision, flexibility, customer focus, quality of products and services, leadership, passion for their business, innovations, teamwork, and resilience in the face of adversity.

You Be the Consultant: "College: The Ideal Place to Launch a Business"

1. **One venture capitalist says that entrepreneurship can't be taught in a regular classroom any more than surfing can. His view is that students should get their feet wet in the real world of entrepreneurship. What do you think? (LO 9) (AACSB: Analytical thinking)**

While students may have different opinions on this, they should consider the following point: by taking one or more entrepreneurship courses in college, students benefit from what we already know about various aspects of entrepreneurship. They can eliminate common mistakes that lead to failure, they can sound out their classmates and their instructor on the viability of their business idea, and can identify venture team members from among their classmates. Besides, most entrepreneurial programs these days include many practical elements – pitch competitions, incubators – that combine classroom learning with practical experience.

2. **In addition to the normal obstacles of starting a business, what other barriers do collegiate entrepreneurs face? (LO 4) (AACSB: Analytical thinking)**

One of the most significant barriers college students face is their inexperience. The learning curve these college students face may be challenging. In addition, their youth may not be taken seriously when working with older business people and engaging in business transactions. Securing financing may prove to be an example of this.

3. **What advantages do collegiate entrepreneurs have when launching a business? (LO 4) (AACSB: Analytical thinking)**

Many young entrepreneurs are technically proficient, are energetic, have an intimate understanding of their peer market, and may be highly creative in identifying market needs and solutions. This group also brings a fresh viewpoint and an ability to see beyond obstacles.

4. **What advice would you offer a fellow college student who is about to start a business? (LO 4) (AACSB: Reflective thinking)**

Suggest students review the advice found in the "Hands On… How To" feature on page 36 and 37.

- Know your business in depth. Conduct thorough research and demonstrate an understanding of the critical needs of the market and the business. Maintain a positive attitude. Seek counsel from more experienced entrepreneurs.
- Build a viable business model and test it, and develop a solid business plan. Set your business apart from the competition. Identify areas of need.

- Understand financial statements, and manage financial resources.
- Learn to manage people effectively.
- Take action to build credibility. Leverage resources to build understanding.

5. **Work with a team of your classmates to develop ideas about what your college or university could do to create a culture of entrepreneurship on your campus or in your community. (AACSB: Analytical thinking)**

Encourage students to list ideas that may help to build entrepreneurial resources. This list might include:

- Bring guest speakers to campus
- Create an entrepreneurial mentorship or internship programs
- Establish an entrepreneurship club
- Host a business plan, big idea, or business model competition
- Explore options to expand entrepreneurship courses offered

Part 4: Chapter Discussion Questions

1-1. What forces have led to the boom in entrepreneurship in the United States and around the globe? (LO 4) (AACSB: Reflective thinking)

Forces that have influenced the U.S. entrepreneurial boom include:

- Entrepreneurs are regarded as heroes
- Entrepreneurship education is extremely popular
- Demographic and economic factors
- Shift to a service economy
- Technology advancements
- Independent lifestyle
- The Internet, cloud computing, and mobile marketing
- International opportunities

1-2. What is an entrepreneur? Give a brief description of the entrepreneurial profile. (LO 2) (AACSB: Reflective thinking)

An entrepreneur is one who creates a new business in the face of risk and uncertainty for the purpose of achieving profits and growth by identifying significant opportunities and assembling the necessary resources to capitalize on them. The entrepreneur has a:

- Desire for responsibility
- Preference for moderate risk *(risk eliminators)*
- Self-reliance
- Confidence in their ability to succeed
- Determination
- Desire for immediate feedback
- High level of energy
- Future orientation *(serial entrepreneurs)*
- Skill at organizing
- Value of achievement over money

In addition, other characteristics of an entrepreneurial profile include:

- High degree of commitment
- Tolerance for ambiguity
- Creativity
- Flexibility
- Resourceful
- Willingness to work hard
- Tenacity

1-3. *Inc.* Magazine claims, "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." Do you agree? Explain. (LO 2) (AACSB: Analytical thinking)

Anyone can become an entrepreneur. There are no limitations to this form of economic expression and the skills of entrepreneurship and innovation can be learned. There are thousands of examples where people have become highly successful with ordinary businesses. This combination of skills, desire, passion, and drive and an understanding of the market opportunity may result in entrepreneurial success.

1-4. What are the major benefits of business ownership? (LO 3 A) (AACSB: Reflective thinking)

Major benefits of business ownership include the opportunity to:

- Create your own destiny
- Make a difference
- Reach your full potential
- Reap impressive profits
- Contribute to society and be recognized for your efforts
- Do what you enjoy and have fun at it

1-5. Which of the potential drawbacks to business ownership are most crucial? (LO 3 B) (AACSB: Reflective thinking)

The most crucial drawbacks to business ownership may include the:

- Uncertainty of income
- Risk of losing your entire investment
- Long hours and hard work
- Lower quality of life until the business gets established
- High levels of stress
- Complete responsibility of the business
- Discouragement

1-6. Describe the small business failure rate. (LO 7) (AACSB: Reflective thinking)

Many small businesses have inexperienced management and lack financial stability. These businesses suffer a mortality rate significantly higher than that of larger, more established businesses because of managerial inexperience and the limited resources available to support the business when it is in need of cash.

1-7. Outline the causes of business failure. Which problems cause most business failures? (LO 7) (AACSB: Reflective thinking)

- ***Poor operations management*** – The manager lacks the ability to operate a small business.
- ***Lack of experience*** – Many owners start businesses in industries in which they have no experience.

- ***Poor financial management*** – Many owners start with too little money and with little or no understanding of financial spreadsheet applications.
- ***Over-investing in fixed assets*** – Owners who over-invest in fixed assets may find themselves with no access to funds for working capital or expansion.
- ***Poor credit practices*** – Owners often sell on credit to meet (or beat) the competition and find that they lack the additional working capital required or the ability to collect on accounts receivable.
- ***Failure to plan*** – The lack of a strategic plan to guide the business in the long run.
- ***Unplanned and uncontrolled growth*** – Growth is natural and healthy, but unplanned growth can be fatal to a business.
- ***Inappropriate location*** – Owners who choose a business location without proper analysis, investigation, and planning often fail. Too often, owners seek "cheap" sites and locate themselves straight into failure.
- ***Lack of inventory control*** – Although inventory is typically the largest investment for the owner, inventory control is one of the most neglected duties.
- ***Inability to make the "Entrepreneurial Transition"*** – Can we learn to empower others to make decisions and act independently?

1-8. How does a typical entrepreneur view the possibility of business failure? (LO 7) (AACSB: Reflective thinking)

Entrepreneurs recognize that failure is likely to be part of their lives, but they are not paralyzed by that fear. Failure is an inevitable part of being an entrepreneur, and true entrepreneurs don't quit when they fail. 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. Success requires both persistence and resilience, the ability to bounce back from failure

1-9. How can the small business owner avoid the common pitfalls that often lead to business failures? (LO 8) (AACSB: Reflective thinking)

Ways to avoid becoming another failure statistic and gain insight into what makes a successful business include:

- Know your business in depth
- Build a viable business model – and test it
- Develop a solid business plan
- Understand financial statements

- Manage financial resources
- Learn to manage people effectively
- Set your business apart from the competition
- Maintain a positive attitude.

1-10. Why is it important to study the small business failure rate and to understand the causes of small business failures? (LO 8) (AACSB: Reflective thinking)

It is important to know what the major causes of small business failures are so that the prospective entrepreneur can avoid those pitfalls. Understanding these causes of failure may enable entrepreneurs to learn and avoid these mistakes and improve their chance for business success.

1-11. Explain the typical entrepreneur's attitude toward risk. (LO 8) (AACSB: Reflective thinking)

Risk is inherent to all future actions. Entrepreneurs are not necessarily high-risk takers, but rather prefer, and are willing to accept and manage, low-to-moderate risk situations. Some consider entrepreneurs as "calculated" risk takers.

1-12. Are you interested in some day launching a small business? (LO 8) (AACSB: Application of knowledge)

This question may provide an opportunity for dialog with students in your class. Encourage them to talk about their business concept and insights they gained from the chapter to improve the opportunity for success.

1-13. If you are interested in launching a business, when do you intend to start it? (LO 8) (AACSB: Application of knowledge)

Student answers should reflect important topics in this chapter such as building the skills necessary for success and seeking ways to avoid failure.

1-14. If you intend to start a business, what steps can you take to increase the likelihood that it will succeed? (LO 8) (AACSB: Application of knowledge)

Student answers should reflect important topics in this chapter such as building the skills necessary for success and seeking ways to avoid failure.

Part 5: Case Studies

The following text case complements lecture and assignments for the topics presented in this chapter.

- Case 2: Bark & Co.

Part 6: Online Videos and Podcasts

These online videos may enhance class discussion and provide additional insight for the chapter topics. You may consider searching "entrepreneur," "small business" along with more specific topics.

- Eye to Eye: Richard Branson 7:10 minutes
  http://www.youtube.com/watch?v=Q6hILGfbqSg&feature=PlayList&p=3BE9FC907D0E88E9&index=33
- Growing a Woman's Security Biz 3:40 minutes
  http://money.cnn.com/video/fsb/2008/10/13/fsb.makeover.picore.smb/
- The Most Successful Small Business in the World 10:41 minutes
  http://www.youtube.com/watch?v=YtkV6bZB8ZY
- Fireworks Business Is 'Booming' for Santores Despite Recession 2:58 minutes
  http://www.youtube.com/watch?v=QNTKaYQiB8c
- Richard Branson Advice to Entrepreneurs 4:03 minutes
  http://www.youtube.com/watch?v=VH35Iz9veM0
- Sunrise – Young Entrepreneurs Making Millions 4:35 minutes
  http://www.youtube.com/watch?v=3LEprgHwv9o
- Advice for Young Entrepreneurs: How to Be Taken Seriously 3:20 minutes
  http://www.youtube.com/watch?v=YcbwbCgB0-U
- Mark Cuban's 12 Rules for Start-Ups 2:18 minutes
  http://www.youtube.com/watch?v=camXWnD4QcI
- Matt and Jessica Flannery – Kiva.org 8:01 minutes
  http://www.youtube.com/watch?v=YNA4Fi1ycM

Links to additional online resources are available on the companion Web site at www.pearsonhighered.com/scarborough.