Chapter 2: The Entrepreneurial Process

True/False Statements

1. One definition of an entrepreneur is someone who shifts economic resources out of an area of higher productivity into an area of lower productivity.

Answer: False
Learning Objective: 2.1 Identify the critical factors for starting a new venture.
Section Reference: Critical Factors for Starting a New Enterprise

2. Entrepreneurship is a process that can be learned.

Answer: True
Learning Objective: 2.1 Identify the critical factors for starting a new venture.
Section Reference: Critical Factors for Starting a New Enterprise

3. Entrepreneurs possess highly specialized behavioral attributes that are distinct from those of non-entrepreneurs.

Answer: False
Learning Objective: 2.1 Identify the critical factors for starting a new venture.
Section Reference: Critical Factors for Starting a New Enterprise

4. Entrepreneurs have a *higher internal locus of control* than non-entrepreneurs.

Answer: True
Learning Objective: 2.1 Identify the critical factors for starting a new venture.
Section Reference: Critical Factors for Starting a New Enterprise

5. Canada has twice the percentage of people self-employed compared to the United States.

Answer: True
Learning Objective: 2.1 Identify the critical factors for starting a new venture.
Section Reference: Critical Factors for Starting a New Enterprise

6. Access to entrepreneurial role models can be a significant factor in determining whether or not someone will become an entrepreneur.

Answer: True
Learning Objective: 2.1 Identify the critical factors for starting a new venture.
Section Reference: Critical Factors for Starting a New Enterprise

7. The majority of the businesses started each year will eventually go bankrupt.

Answer: False
Learning Objective: 2.1 Identify the critical factors for starting a new venture.
Section Reference: Critical Factors for Starting a New Enterprise

8. Raising venture capital is a critical step for most successful ventures.

Answer: False
Learning Objective: 2.1 Identify the critical factors for starting a new venture.
Section Reference: Critical Factors for Starting a New Enterprise

9. Whether a company is successful is largely a matter of luck.

Answer: False
Learning Objective: 2.2 Evaluate the opportunity for a new business.
Section Reference: Evaluating Opportunities for New Businesses

10. To be successful, a company must possess a unique and novel idea.

Answer: False
Learning Objective: 2.2 Evaluate the opportunity for a new business.
Section Reference: Evaluating Opportunities for New Businesses

11. Financial literacy and management is not an important factor contributing to new venture success.

Answer: False
Learning Objective: 2.3 Identify the resources needed for a new business.
Section Reference: Determining Resource Needs and Acquiring Resources

12. Secrecy about one’s idea is more likely to hurt the development of the business than help it.

Answer: True
Learning Objective: 2.2 Evaluate the opportunity for a new business.
Section Reference: Evaluating Opportunities for New Businesses

13. Only the most skilled entrepreneurs should attempt to build a business around social or cultural fads.

Answer: True
Learning Objective: 2.2 Evaluate the opportunity for a new business.
Section Reference: Evaluating Opportunities for New Businesses

14. Entrepreneurial companies should consider outsourcing responsibilities and functions that are not critical to the company's success.

Answer: True
Learning Objective: 2.3 Identify the resources needed for a new business.
Section Reference: Determining Resource Needs and Acquiring Resources

15. Marginal cost is a term that refers to expenses that are difficult to justify in an entrepreneurial environment.

Answer: False
Learning Objective: 2.3 Identify the resources needed for a new business.
Section Reference: Determining Resource Needs and Acquiring Resources

16. Entrepreneurs should always seek to own the resources that they utilize while building a company.

Answer: False
Learning Objective: 2.3 Identify the resources needed for a new business.
Section Reference: Determining Resource Needs and Acquiring Resources

17. The two types of startup capital are debt and equity.

Answer: True
Learning Objective: 2.4 Evaluate the profit potential of a new business.
Section Reference: Profit Potential

18. The vast majority of entrepreneurs start their companies with their own personal savings.

Answer: True
Learning Objective: 2.3 Identify the resources needed for a new business.
Section Reference: Determining Resource Needs and Acquiring Resources

19. Pivoting refers to startups making the required course corrections during the development process to dramatically improve their odds for success.

Answer: True
Learning Objective: 2.2 Evaluate the opportunity for a new business.
Section Reference: Evaluating Opportunities for New Businesses

20 A majority of companies require at least $100,000 to begin operations.

Answer: False
Learning Objective: 2.4 Evaluate the profit potential of a new business.
Section Reference: Profit Potential

21. The cost to finance a startup ranges between $25,000 and $30,000 depending on the size of the startup.

Answer: True
Learning Objective: 2.4 Evaluate the profit potential of a new business.
Section Reference: Profit Potential

22. It is possible for a company to have a positive cash flow and be unprofitable.

Answer: True
Learning Objective: 2.4 Evaluate the profit potential of a new business.
Section Reference: Profit Potential

23. Startups that tend to focus on multiple markets are the most successful.

Answer: False
Learning Objective: 2.5 Identify the factors for a successful new business.
Section Reference: Ingredients for a Successful New Business

24. Having multiple layers of management is the best way to ensure that a startup is flexible and quick to react to changes.

Answer: False
Learning Objective: 2.5 Identify the factors for a successful new business.
Section Reference: Ingredients for a Successful New Business

25. If companies A and B are in the same industry, and A has $200,000 in sales per employee while B has $325,000 in sales per employee, then B is the more productive company.

Answer: True
Learning Objective: 2.4 Evaluate the profit potential of a new business.
Section Reference: Profit Potential

26. A serial entrepreneur is someone who starts multiple companies, one right after the other.

Answer: True
Learning Objective: 2.1 Identify the critical factors for starting a new venture.
Section Reference: Critical Factors for Starting a New Enterprise

27. Generally speaking, entrepreneurs have a stronger need to be in control of their own fate.

Answer: True
Learning Objective: 2.1 Identify the critical factors for starting a new venture.
Section Reference: Critical Factors for Starting a New Enterprise

28. Entrepreneurship reduces the overall health of an economy by destroying jobs in traditional industries.

Answer: False
Learning Objective: 2.1 Identify the critical factors for starting a new venture.
Section Reference: Critical Factors for Starting a New Enterprise

29. For fledgling entrepreneurs, there are few free resources available for input and guidance.

Answer: False
Learning Objective: 2.2 Evaluate the opportunity for a new business.
Section Reference: Evaluating Opportunities for New Businesses

30. For a company that goes public, the founding entrepreneur typically owns a majority of the shares of the corporation.

Answer: False
Learning Objective: 2.4 Evaluate the profit potential of a new business.
Section Reference: Profit Potential

31. Anyone who wishes to pursue an entrepreneurial venture would be wise to take at least three of the widely distributed entrepreneur-attribute tests beforehand.

Answer: False
Learning Objective: 2.5 Identify the factors for a successful new business.
Section Reference: Ingredients for a Successful New Business

32. The most famous geographic region for high-tech entrepreneurship is in California and often referred to as, “Silicon Valley.”

Answer: True
Learning Objective: 2.5 Identify the factors for a successful new business.
Section Reference: Ingredients for a Successful New Business

33. Low-tech businesses, such as convenience stores, are not typically considered part of entrepreneurship because of their lack of innovation and intellectual property.

Answer: False
Learning Objective: 2.5 Identify the factors for a successful new business.
Section Reference: Ingredients for a Successful New Business

34. The most costly expense that seed-stage biotechnology companies face in their early years is the initial expenditure on manufacturing equipment.

Answer: False
Learning Objective: 2.4 Evaluate the profit potential of a new business.
Section Reference: Profit Potential

35. The majority of entrepreneurs’ business ideas come from area outside of their present line of employment or experience.

Answer: False
Learning Objective: 2.2 Evaluate the opportunity for a new business.

Section Reference: Evaluating Opportunities for New Businesses

36. One difference between having an idea vs. an opportunity is the ability to list potential customers by name.

Answer: True
Learning Objective: 2.5 Identify the factors for a successful new business.
Section Reference: Ingredients for a Successful New Business

37. Two ingredients that determine an entrepreneur's return on investment are (1) the amount invested and (2) the annual amount earned on that investment.

Answer: True
Learning Objective: 2.4 Evaluate the profit potential of a new business.
Section Reference: Profit Potential

Multiple Choice

38. Which of the following could be a "trigger" for the entrepreneurial process?
a) Being fired by an employer
b) Deep frustration with one's career
c) A conversation with a friend or peer
d) An unexpected financial windfall
e) All of the above

Answer: e
Learning Objective: 2.1 Identify the critical factors for starting a new venture.
Section Reference: Critical Factors for Starting a New Enterprise

39. What percentage of Canadians are self-employed?
a) 5%
b) 10%
c) 15%
d) 20%
e) 25%

Answer: d
Learning Objective: 2.1 Identify the critical factors for starting a new venture.
Section Reference: Critical Factors for Starting a New Enterprise

40. Where do most entrepreneurs get the idea for their businesses?
a) Through brainstorming
b) From mentors
c) From exposure to an industry
d) By reading entrepreneurship books
e) From venture capitalists

Answer: c
Learning Objective: 2.2 Evaluate the opportunity for a new business.
Section Reference: Evaluating Opportunities for New Businesses

41. Which of the following *is not* cited by the chapter as a primary reason that entrepreneurs choose to go into business for themselves?
a) Fame
b) Innovation
c) Financial success
d) Independence
e) Self-realization

Answer: a
Learning Objective: 2.1 Identify the critical factors for starting a new venture.
Section Reference: Critical Factors for Starting a New Enterprise

42. Which of the following is not a critical component of the talent triangle of a successful management team except for:
a) Business acumen
b) Financial investment
c) Domain knowledge
d) Operational Experience

Answer: b
Learning Objective: 2.1 Identify the critical factors for starting a new venture.
Section Reference: Critical Factors for Starting a New Enterprise

43. Which of the following contacts can be critical to the startup phase of a new business?
a) Potential customers
b) Lawyers
c) Bankers
d) Accountants
e) All of the above

Answer: e
Learning Objective: 2.3 Identify the resources needed for a new business.
Section Reference: Determining Resource Needs and Acquiring Resources
44. What percentage of new startup firms in Canada survive the five year mark?
a) 1%
b) 12%
c) 25%
d) 36%
e) 73%

Answer: d
Learning Objective: 2.2 Evaluate the opportunity for a new business.
Section Reference: Evaluating Opportunities for New Businesses

45. Which of the following is not a critical favor attributed to lack of success of a new venture in Canada?
a) Market entry in unfavorable conditions
b) Overemphasis on market trends
c) Lack of financial literacy
d) Lack of financial management
e) Inadequate business acumen.

Answer: b
Learning Objective: 2.2 Evaluate the opportunity for a new business.
Section Reference: Evaluating Opportunities for New Businesses

46. Which of the following is not a critical component for a successful new business?
a) The opportunity
b) The management team
c) The age of the lead entrepreneur
d) The resources available
e) None of the above

Answer: c
Learning Objective: 2.5 Identify the factors for a successful new business.
Section Reference: Ingredients for a Successful New Business

47. A successful new business needs to provide a solution that is how much better than what is currently available?
a) Equally as good
b) Slightly better

c) Twice as good
d) 10 times better
e) Not a factor in determining success

Answer: d
Learning Objective: 2.2 Evaluate the opportunity for a new business.
Section Reference: Evaluating Opportunities for New Businesses

48. A good example of entrepreneurial frugality is:
a) Providing cell phones for all employees
b) Leasing more space than is immediately necessary
d) Purchasing used office equipment and machinery
d) Limiting employees to strict job responsibilities
e) Renting top notch facilities

Answer: d
Learning Objective: 2.3 Identify the resources needed for a new business.
Section Reference: Determining Resource Needs and Acquiring Resources

49. When determining how to allocate scarce resources, an entrepreneur should:
a) Focus on the company's key success factors
b) Spread resources around to gain experience
c) Focus exclusively on marketing
d) Focus exclusively on technology
e) None of the above

Answer: a
Learning Objective: 2.3 Identify the resources needed for a new business.
Section Reference: Determining Resource Needs and Acquiring Resources

50. For an entrepreneurial company, leasing is better than buying because:
a) Leasing can lead to more favorable terms
b) Leasing preserves cash by spreading out payments
c) Owning and maintaining property and equipment is rarely a company's specialty
d) All of the above
e) None of the above

Answer: d
Learning Objective: 2.3 Identify the resources needed for a new business.
Section Reference: Determining Resource Needs and Acquiring Resources

51. Which of the following is not a common stage in the financing of new businesses?
a) Investing personal savings
b) Building sweat equity
c) Private investment by ‘angels’
d) Bank debt
e) Initial public offering

Answer: e
Learning Objective: 2.4 Evaluate the profit potential of a new business.
Section Reference: Profit Potential

52. When a venture capital firm invests in a company, they typically expect which of the following in return:
a) Cash
b) Shares of the company
c) Debt
d) A personal guarantee
e) Intellectual property

Answer: b
Learning Objective: 2.4 Evaluate the profit potential of a new business.
Section Reference: Profit Potential

53. What ratio best reflects the number of companies that begin with venture capital in hand?
a) 1 in 2 companies
b) 1 in 20 companies
c) 1 in 500 companies
d) 1 in 2000 companies
e) 1 in 10,000 companies

Answer: e
Learning Objective: 2.4 Evaluate the profit potential of a new business.
Section Reference: Profit Potential

54. On average, small and medium-sized businesses in Canada make about what % net income.?
a) 1%
b) 12%
c) 25%
d) 50%
e) 90%

Answer: b

Learning Objective: 2.4 Evaluate the profit potential of a new business.
Section Reference: Profit Potential

55. Investors typically expect an annual rate of return in the range of _______, from a growing startup:
a) -20% to 0%
b) 0% to 10%
c) 5% to 25%
d) 40% to 60%
e) 80% to 120%

Answer: d
Learning Objective: 2.4 Evaluate the profit potential of a new business.
Section Reference: Profit Potential

56. The term 'free cash flow' generally refers to:
a) Money that is raised through grants and donations
b) Debt that requires no initial interest payments
c) Cash that is generated in excess of fund required to sustain operations and purchase assets
d) Capital raised through an initial public offering or other equity financing
e) None of the above

Answer: c
Learning Objective: 2.4 Evaluate the profit potential of a new business.
Section Reference: Profit Potential

57. Which of the following is not one of the Nine Fs of Entrepreneurial Success?
a) Focused
b) Frugal
c) Flexible
d) Frenetic
e) Fun

Answer: d
Learning Objective: 2.5 Identify the factors for a successful new business.
Section Reference: Ingredients for a Successful New Business

58. Which of the following is not one of the 10 Ds of Successful Entrepreneurs?
a) Driven
b) Details
c) Dedicated

d) Distribute
e) Dream

Answer: a
Learning Objective: 2.5 Identify the factors for a successful new business.
Section Reference: Ingredients for a Successful New Business

59. In entrepreneurship, luck is where ______________ and opportunity meet.
a) Intelligence
b) Fortune
c) Strategy
d) Focus
e) Preparation

Answer: e
Learning Objective: 2.5 Identify the factors for a successful new business.
Section Reference: Ingredients for a Successful New Business

60. Which of the following is not a characteristic of most entrepreneurial ideas?
a) They are unique
b) They offer improved performance
c) They offer lower pricing
d) They offer higher quality
e) They offer better service

Answer: a
Learning Objective: 2.2 Evaluate the opportunity for a new business.
Section Reference: Evaluating Opportunities for New Businesses

61. The best would-be entrepreneur will have a track record of:
a) Working consistently at one company
b) Increasing sales and profits
c) Managing multiple employees
d) Work in numerous industries
e) Strong relationships with managers

Answer: b
Learning Objective: 2.2 Evaluate the opportunity for a new business.
Section Reference: Evaluating Opportunities for New Businesses

62. Commonly outsourced responsibilities include all of the following except:

a) Payroll
B) Accounting
C) Legal work
D) Customer service
E) Janitorial Services

Answer: d
Learning Objective: 2.3 Identify the resources needed for a new business.
Section Reference: Determining Resource Needs and Acquiring Resources

63. The situation that arises when an entrepreneur is reliant on his or her company for a salary and has most of his or her personal net worth tied up in the company is called:
a) Sweat equity
b) Venture capital
c) Double jeopardy
d) Factoring
e) Locus of control

Answer: c
Learning Objective: 2.4 Evaluate the profit potential of a new business.
Section Reference: Profit Potential

64. A $150,000 dollar investment in a company that yielded a $30,000 dividend in the first year would have achieved which of the following returns on investment?
a) 2%
b) 5%
c) 15%
d) 20%
e) 30%

Answer: d
Learning Objective: 2.4 Evaluate the profit potential of a new business.
Section Reference: Profit Potential

65. Which of the following is not one of the global conditions increasing the rate of change in business?
a) Managerial specialization and layering.
b) The industrial sector's reliance on advanced knowledge.
c) Advancements in communications.
d) Changes in government regulations.
e) All of the above

Answer: a
Learning Objective: 2.2 Evaluate the opportunity for a new business.
Section Reference: Evaluating Opportunities for New Businesses

66. Often start-ups can reduce overhead by using outside firms for…
a) Payroll
b) Accounting
c) Advertising
d) All of the above
e) None of the above

Answer: d
Learning Objective: 2.3 Identify the resources needed for a new business.
Section Reference: Determining Resource Needs and Acquiring Resources

67. To reduce the cost of office space you may be able to convince a landlord to…
a) Reduce rent
b) Defer rent payments for a period of time
c) Allow subletting of unused space
d) B and C
e) A and B

Answer: e
Learning Objective: 2.3 Identify the resources needed for a new business.
Section Reference: Determining Resource Needs and Acquiring Resources

68. The factors that give birth to a new enterprise and influence its development can be categorized as
a) Innovation, Triggering, Environmental, Growth
b) Sociological, Environmental, Innovation, Personal
c) Personal, Sociological Organizational, Environmental
d) Innovation, Triggering Event, Implementation, Growth

Answer: c
Learning Objective: 2.1 Identify the critical factors for starting a new venture.
Section Reference: Critical Factors for Starting a New Enterprise

69. One of the biggest misconceptions about an idea for a new business is that
a) It must be technology related
b) It must be unique
c) It must be patentable

d) None of the above

Answer: b
Learning Objective: 2.2 Evaluate the opportunity for a new business.
Section Reference: Evaluating Opportunities for New Businesses

Open Ended

70. Give several examples of triggering events that give birth to a new organization.

- Job dissatisfaction
- Loss of job
- Dissatisfaction with current level of income
- Desire to be independent

Learning Objective: 2.1 Identify the critical factors for starting a new venture.
Section Reference: Critical Factors for Starting a New Enterprise

71. What are the stages described in the model of the entrepreneurial process? What are the factors that give birth to a new enterprise and influence how it develops from an idea to a viable enterprise?

- Stages: innovation => triggering event => implementation => growth
- Factors: personal, sociological, organizational, and environmental

Learning Objective: 2.1 Identify the critical factors for starting a new venture.
Section Reference: Critical Factors for Starting a New Enterprise

72. What are some characteristics of Canada's fastest growing startup CEOs?

- They are on average 39-years old.
- They clock in 61-hour work weeks (compared to the average person's week of 40 hours);
- 66% of the CEOs are serial entrepreneurs

Learning Objective: 2.1 Identify the critical factors for starting a new venture.
Section Reference: Critical Factors for Starting a New Enterprise

73. What is the 'talent triangle' and what are the key components?

The talent triangle refers to the attributes that make up a successful management team. It includes three elements:

- Business acumen (skills and expertise in the development of strategy and the execution of business planning)
- Operational experience (prior know-how with regard to the building and delivery of the solution)
- Domain knowledge (understanding the customers and the industry within the business domain)

Learning Objective: 2.1 Identify the critical factors for starting a new venture.
Section Reference: Critical Factors for Starting a New Enterprise

74. What are some examples and ways that organizations in Canada help fledgling entrepreneurs?

- The Small Business Association (SBA) of Canada and Startup Canada provides free or minimal cost assistance to entrepreneurs and startups across the country. Startup Canada is one of the country's most followed national entrepreneurship organizations.
- Many colleges and universities also provide help. Some are particularly good at writing business plans, usually at no charge to the entrepreneur.
- There are dozens of incubators and accelerators in Canada where fledgling businesses can rent space, usually at a very reasonable price, and spread some of their overhead by sharing facilities such as copying machines, secretarial help, answering services, and so on.

Learning Objective: 2.1 Identify the critical factors for starting a new venture.
Section Reference: Critical Factors for Starting a New Enterprise

75. What are some of the sociological reasons that starting a company becomes more risky or difficult as people grow older?

- When one has been in an industry a long time, that person knows so many pitfalls that he or she may become pessimistic about the chance of success of any new venture.
- Young people, on the contrary, are usually optimistic about future and have the energy to implement their ideas, regardless of the current conditions.
- A beginner's mind looks at situations from a new perspective.

Learning Objective: 2.2 Evaluate the opportunity for a new business.
Section Reference: Evaluating Opportunities for New Businesses

76. What contacts will you need as an entrepreneur?

- Customers
- Suppliers
- Investors
- Bankers
- Accountants
- Lawyers

Learning Objective: 2.3 Identify the resources needed for a new business.
Section Reference: Determining Resource Needs and Acquiring Resources

77. How did the Pita Pit founders address the gap in their management team?
When opening the first location of Pita Pit, the founders Nelson Lang and John Sotiriadis fulfilled the business acumen and domain knowledge corners of the talent triangle, but were lacking operational experience. The two founders made it a high-priority to find people with experience in fast food and the restaurant industry to ensure they had someone with superior operational knowledge on their team.

Learning Objective: 2.2 Evaluate the opportunity for a new business.
Section Reference: Evaluating Opportunities for New Businesses

78. Explain the rationale behind the statement, "A first class team with a second class idea is better than a second class team with a first class idea."

- If you have identified an excellent opportunity but your team lacks the experience to implement it, you will not be able to fulfill the idea's potential.
- The crucial ingredients for entrepreneurial success are: a superb entrepreneur with a first-rate management team and an excellent market opportunity.
- Entrepreneurship is not a matter of luck, but of an ability to combine one's experience with one's knowledge and to bring an idea to life.

Learning Objective: 2.2 Evaluate the opportunity for a new business.
Section Reference: Evaluating Opportunities for New Businesses

79. Why do you suppose the authors say that in entrepreneurship, “Ideas are a dime a dozen,”? What does this statement imply about an idea’s importance to a successful business?

- Almost any idea that a would-be entrepreneur might have has also occurred to others.
- A good idea in itself is not guaranteed to become a profitable venture.
- Developing the idea, implementing it, and building a business are the important aspects of entrepreneurship.

Learning Objective: 2.3 Identify the resources needed for a new business.
Section Reference: Determining Resource Needs and Acquiring Resources

80. Explain the benefits and drawbacks of debt and equity financing, respectively.

- Debt does not require an entrepreneur to give up any ownership stake in the business. However, debt does require the business to pay current interest and eventually repay the principal.
- Equity financing compels the founder to relinquish a portion of ownership in the business, but does not demand repayment or even a dividend.

Learning Objective: 2.4 Evaluate the profit potential of a new business.
Section Reference: Profit Potential

81. Describe the likely progression of financing for a startup that achieves an IPO.

- The entrepreneurs develop a prototype with personal savings, contributions from friends and family, and sweat equity.
- Then a wealthy investor invests some personal money in return for equity.
- After the company begins generating revenue, it may be able to secure a bank line of credit by leveraging its inventory and accounts receivable.
- If the company is growing quickly in a large market, it may be able to raise capital from a formal venture capital firm in return for equity.
- Further expansion capital may come from additional rounds of venture capital founding or from a public stock offering.

Learning Objective: 2.4 Evaluate the profit potential of a new business.
Section Reference: Profit Potential

82. What is ‘free cash flow’ and why is it such a critical factor for a growing business?

- The ability to generate a positive free cash flow indicates that the business can sustain its operations and purchase the assets necessary to keep the company on its growth trajectory.
- If a venture does not generate enough cash to sustain its growth, it may self-destruct.
- The inability to generate free cash flow forces a firm to either dive more deeply into debt or dilute the owner's share in the venture in order for the business to finance further growth.

Learning Objective: 2.4 Evaluate the profit potential of a new business.
Section Reference: Profit Potential

83. The three crucial components of a successful venture are the opportunity, the entrepreneur/management team, and the resources needed to start the company. Explain the interrelation of these items.

- The crucial driving force of any new venture is the lead entrepreneur and the founding management team.
- In entrepreneurship, success is a question of recognizing a good opportunity and having the skills to convert that opportunity into a thriving business.
- The ability to find the necessary resources and to use them efficiently is the metaphoric chain linking the entrepreneur and the opportunity.

Learning Objective: 2.5 Identify the factors for a successful new business.
Section Reference: Ingredients for a Successful New Business

84. How do salary and return on investment, for the founding entrepreneur, factor into the regular operations of a startup?

- A wage expenses for the founder and any family members working for the business should be considered in profitability calculations, regardless of whether or not cash has actually been paid to them.
- Any salary earned but not paid out by the business should be recorded as deferred compensation to be paid at a later date.
- The entrepreneur's investment in the business should earn a reasonable return to be paid as a dividend, or as capital gains, when the business is sold.

Learning Objective: 2.4 Evaluate the profit potential of a new business.
Section Reference: Profit Potential

85. Discuss some issues around being secretive about your business idea

- It complicates evaluating the idea for lack of others input
- It can prevent a poor idea from being abandoned before it absorbs too many resources
- It can let an excellent idea die for the entrepreneurs lack of confidence
- The idea itself is less critical than the ability to execute on it.

Learning Objective: 2.3 Identify the resources needed for a new business.
Section Reference: Determining Resource Needs and Acquiring Resources

86. How can an entrepreneur's location in Canada improve chances for success?

- Locating in a hotbed of entrepreneurial activity can make role models more accessible, and lower barriers to starting.
- Places like Montreal and Toronto for tech start-ups have a high concentration of needed resources for high-potential start-ups, from money to talent.

Learning Objective: 2.3 Identify the resources needed for a new business.
Section Reference: Determining Resource Needs and Acquiring Resources

87. Discuss the impact that greater family responsibilities may have on the decision to become and entrepreneurs.

- Clearly the risk is higher in terms of the financial and personal costs
- Such entrepreneurs may wish to spend more time preparing themselves financially to go without income for some time
- Entrepreneurs may choose to start a venture on the side, confirm the existence of a market and initial viable business model, before putting more time and effort into the company.
- Entrepreneurs may choose to start companies with different business models, such as online companies, that enable them flexible work locations.

Learning Objective: 2.1 Identify the critical factors for starting a new venture.
Section Reference: Critical Factors for Starting a New Enterprise

88. Describe the importance of identifying how much start-up capital you will need to reach a positive cash flow.

- Without an understanding of an initial figure, and the key drivers of the figure, an entrepreneur risks failure by running out of money, or by giving away too much equity to raise funds and thereby failing to achieve a sufficient return on investment.

- New ventures must have the resources need to growth fast enough to a position where it can sustain itself on its own cash flow from operations. Insufficient cash early on could do irreparable damage a venture likelihood of success.

Learning Objective: 2.3 Identify the resources needed for a new business.
Section Reference: Determining Resource Needs and Acquiring Resources

89. Discuss some of the reasons why customers are so important.

- Customers are non-dilutive: the more customers a startup can speak to throughout the process, the more valuable information and feedback it will receive;
- Customers are your market: you can never ask enough questions or talk too much to customers throughout the development process and stages;

- Positive feedback loop: having a positive feedback loop throughout the process allows startups to pivot or adjust throughout the development process, ensuring they are creating the best possible product/solution;

- Proof of concept: customer buy-in provides the most proof of concept for any startup: the customer needs

Learning Objective: 2.5 Identify the factors for a successful new business.
Section Reference: Ingredients for a Successful New Business

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