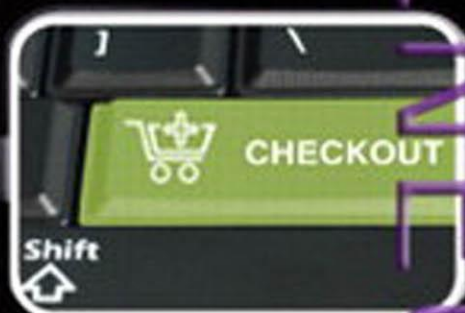


Eleventh Edition

ENTREPRENEURSHIP

and effective small
business management

Norman M. Scarborough
Jeffrey Cornwall



ENTREPRENEURSHIP

Cases

Entrepreneurship and Effective Small Business Management, 11/E

Case #	Entrepreneur & Company Name	Related Topics	Chapter Reference
1	Michael Volpatt, Kate Larkin, and Crista Leudtke Big Bottom Market	<i>Industry: Restaurant, specialty food, and wine</i> • Bootstrap marketing and social media marketing • Managing cash flow	9 15
2	Peter Justen MyBizHomepage	<i>Industry: Web-based financial services for small business owners</i> • Entrepreneurship • Buying/Selling a business • E-commerce • Sources of financing • Human resources management: staffing	1 7 13 16 and 17 21
3	Jacqui Rosshandler Jacquii LLC	<i>Industry: All-natural breath-freshener</i> • Managing cash flow • Sources of equity financing • Sources of debt financing	15 16 17
4	Lucy Cardenas and Bill Coker Red Iguana	<i>Industry: Restaurant</i> • Buying/Selling a business • Sources of debt financing • Management succession • Choosing a location	7 17 18 22
5	Rachel Shein and Steve Pilarski Baked in the Sun	<i>Industry: Wholesale bakery</i> • Healthcare insurance and the Affordable Care Act	22
6	Angela Crawford and Martin Rodriguez Bluffton Pharmacy	<i>Industry: Pharmacy</i> • Financial analysis	14
7	Angela Crawford and Martin Rodriguez Bluffton Pharmacy – Part 2	<i>Industry: Pharmacy</i> • Managing cash flow	15
8	Brian Linton United By Blue	<i>Industry: Apparel</i> • Ethics and social responsibility • Strategic management • Pricing	2 4 11
9	Aseem Badshah and Kevin Yu Socedo	<i>Industry: Social media services</i> • Entrepreneurship • Sources of equity financing	1 16
10	Kelly Lester EasyLunchboxes	<i>Industry: Lunchboxes</i> • Bootstrap marketing and social media marketing • E-commerce	9 13

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Entrepreneurship and Effective Small Business Management

Norman M. Scarborough

Presbyterian College

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Belmont University

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Brief Contents

SECTION I The Rewards and Challenges of Entrepreneurship 1

- Chapter 1** Entrepreneurs: The Driving Force Behind Small Business 1
- Chapter 2** Ethics and Social Responsibility: Doing the Right Thing 37
- Chapter 3** Creativity and Innovation: Keys to Entrepreneurial Success 71
- Chapter 4** Strategic Management and the Entrepreneur 105

SECTION II Launching a Venture: Entry Strategies 137

- Chapter 5** Choosing a Form of Ownership 137
- Chapter 6** Franchising and the Entrepreneur 165
- Chapter 7** Buying an Existing Business 201
- Chapter 8** New Business Planning Process: Feasibility Analysis, Business Modeling, and Crafting a Winning Business Plan 235

SECTION III Building a Marketing Plan 273

- Chapter 9** Building a Bootstrap Marketing Plan 273
- Chapter 10** Creative Use of Advertising and Promotion 305
- Chapter 11** Pricing and Credit Strategies 343
- Chapter 12** Global Marketing Strategies 375
- Chapter 13** E-Commerce and Entrepreneurship 413

SECTION IV Building a Financial Plan 453

- Chapter 14** Creating a Solid Financial Plan 453
- Chapter 15** Managing Cash Flow 489
- Chapter 16** Sources of Equity Financing 523
- Chapter 17** Sources of Debt Financing 551

SECTION V Building an Operating Plan 581

- Chapter 18** Location, Layout, and Physical Facilities 581
- Chapter 19** Supply Chain Management 627
- Chapter 20** Managing Inventory 667
- Chapter 21** Staffing and Leading a Growing Company 703

SECTION VI Legal Aspects of Small Business: Succession, Ethics, and Government Regulation 741

- Chapter 22** Management Succession and Risk Management Strategies in the Family Business 741
- Chapter 23** The Legal Environment: Business Law and Government Regulation 781

APPENDIX The picturebooth co. 817

Cases 831

Endnotes 846

Index 884

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Contents

Preface xxiii

Acknowledgments xxvi

SECTION I The Rewards and Challenges of Entrepreneurship 1

Chapter 1 Entrepreneurs: The Driving Force Behind Small Business 1

The Role of the Entrepreneur 2

What Is an Entrepreneur? 5

■ **ENTREPRENEURSHIP IN ACTION** Space: The Next Entrepreneurial Frontier? 9

How to Spot Entrepreneurial Opportunities 10

Monitor Trends and Exploit Them Early On 10

Travel—and Be Inspired 11

Take a Different Approach to an Existing Market 11

Put a New Twist on an Old Idea 11

Look for Creative Ways to Use Existing Resources 12

Realize That Others Have the Same Problem You Do 12

Take Time to Play 12

Notice What Is Missing 12

The Benefits of Owning a Small Business 13

Opportunity to Gain Control over Your Own Destiny 13

Opportunity to Make a Difference 13

Opportunity to Reach Your Full Potential 14

Opportunity to Reap Impressive Profits 14

Opportunity to Contribute to Society and Be Recognized for Your Efforts 14

Opportunity to Do What You Enjoy Doing 15

The Potential Drawbacks of Entrepreneurship 15

Uncertainty of Income 15

Risk of Losing Your Entire Invested Capital 15

Long Hours and Hard Work 16

Lower Quality of Life Until the Business Gets Established 16

High Levels of Stress 16

Complete Responsibility 17

Discouragement 17

Why the Boom: The Fuel Feeding the Entrepreneurial Fire 17

Entrepreneurs as Heroes 17

Entrepreneurial Education 17

Shift to a Service Economy 17

Technology Advancements 17

Outsourcing 18

Independent Lifestyle 18

E-Commerce, the Internet, and Mobile Computing 18

International Opportunities 19

■ **IN THE ENTREPRENEURIAL SPOTLIGHT** Collegiate Entrepreneurs 19

The Cultural Diversity of Entrepreneurship 20

- Young Entrepreneurs 20
- Women Entrepreneurs 21
- Minority Enterprises 22
- Immigrant Entrepreneurs 23
- Part-Time Entrepreneurs 24
- Home-Based Business Owners 24
- Family Business Owners 24
- Copreneurs 26
- Corporate Castoffs 27
- Corporate “Dropouts” 27
- Retired Baby Boomers 28

The Contributions of Small Businesses 28

- **LESSONS FROM THE STREET-SMART ENTREPRENEUR** Bulletproofing Your Start-Up 30

Putting Failure into Perspective 31

How to Avoid the Pitfalls 32

- Know Your Business in Depth 32
- Prepare a Business Plan 33
- Manage Financial Resources 33
- Understand Financial Statements 33
- Learn to Manage People Effectively 34
- Set Your Business Apart from the Competition 34
- Maintain a Positive Attitude 34

Conclusion—and a Look Ahead 34

- Chapter Review 35 • Discussion Questions 36

Chapter 2 Ethics and Social Responsibility: Doing the Right Thing 37

An Ethical Perspective 39

- Three Levels of Ethical Standards 40
- Immoral, Amoral, and Moral Management 41
- The Benefits of Moral Management 42
- Establishing an Ethical Framework 43

Why Ethical Lapses Occur 44

- An Unethical Employee 45
- An Unethical Organizational Culture 45
- Moral Blindness 45
- Competitive Pressures 45
- Opportunity Pressures 45
- Globalization of Business 45

Establishing and Maintaining Ethical Standards 46

- Establishing Ethical Standards 46
- Maintaining Ethical Standards 46

- **ENTREPRENEURSHIP IN ACTION** But Is It Safe? 49

Social Entrepreneurship 49

- **IN THE ENTREPRENEURIAL SPOTLIGHT** Making a Profit and Making a Difference 50

Social Responsibility 51

Business’s Responsibility to the Environment 52

Business’s Responsibility to Employees 53

- Cultural Diversity in the Workplace 54
- Drug Testing 57

HIV/AIDS 58

Sexual Harassment 59

■ **LESSONS FROM THE STREET-SMART ENTREPRENEUR** How to Avoid Sexual Harassment Charges 62

Privacy 64

■ **ENTREPRENEURSHIP IN ACTION** Think Before You Hit “Post” on Facebook 64

Business’s Responsibility to Customers 65

Right to Safety 65

Right to Know 66

Right to Be Heard 66

Right to Education 66

Right to Choice 67

Business’s Responsibility to Investors 67

Business’s Responsibility to the Community 67

Conclusion 68

Chapter Review 68 • Discussion Questions 69

Chapter 3 Creativity and Innovation: Keys to Entrepreneurial Success 71

Creativity, Innovation, and Entrepreneurship 72

Creativity—Essential to Survival 76

Can Creativity Be Taught? 78

Creative Thinking 78

■ **IN THE ENTREPRENEURIAL SPOTLIGHT** The Ingredients of Creativity 79

Barriers to Creativity 81

■ **LESSONS FROM THE STREET-SMART ENTREPRENEUR** Questions to Spur the Imagination 85

How to Enhance Creativity 86

Enhancing Organizational Creativity 86

Enhancing Individual Creativity 91

■ **IN THE ENTREPRENEURIAL SPOTLIGHT** How to Create a Culture of Creativity and Innovation 96

The Creative Process 97

Step 1. Preparation 97

Step 2. Investigation 98

Step 3. Transformation 98

Step 4. Incubation 99

Step 5. Illumination 101

Step 6. Verification 101

Step 7. Implementation 102

Conclusion 102

Chapter Review 103 • Discussion Questions 103

Chapter 4 Strategic Management and the Entrepreneur 105

Building a Competitive Advantage 108

The Strategic Management Process 110

Step 1. Develop a Clear Vision and Translate It into a Meaningful Mission Statement 111

■ **LESSONS FROM THE STREET-SMART ENTREPRENEUR** Thriving on Change 113

Step 2. Assess the Company’s Strengths and Weaknesses 114

Step 3. Scan the Environment for Significant Opportunities and Threats Facing the Business 115

Step 4. Identify the Key Factors for Success in the Business 116

- Step 5. Analyze the Competition 118
- Step 6. Create Company Goals and Objectives 122
- **ENTREPRENEURSHIP IN ACTION** Vizio: Disrupting Another Market 124
- Step 7. Formulate Strategic Options and Select the Appropriate Strategies 125
- **IN THE ENTREPRENEURIAL SPOTLIGHT** Strategies for Success 130
- Step 8. Translate Strategic Plans into Action Plans 131
- Step 9. Establish Accurate Controls 132

Conclusion 134

Chapter Review 135 • Discussion Questions 136

SECTION II Launching a Venture: Entry Strategies 137

Chapter 5 Choosing a Form of Ownership 137

The Sole Proprietorship 139

Advantages of a Sole Proprietorship 140

■ **LESSONS FROM THE STREET-SMART ENTREPRENEUR** Get That Name Right! 141

Disadvantages of the Sole Proprietorship 142

■ **ENTREPRENEURSHIP IN ACTION** What's in a Name? 143

The Partnership 144

The Uniform Partnership Act 146

Advantages of the Partnership 146

■ **LESSONS FROM THE STREET-SMART ENTREPRENEUR** How to Avoid a Business Divorce 148

Disadvantages of the Partnership 149

Limited Partnerships 150

Limited Liability Partnerships 151

The Corporation 151

Requirements for Incorporation 151

Advantages of the Corporation 152

Disadvantages of the Corporation 154

Professional Corporations 155

The S Corporation 155

Advantages of an S Corporation 156

Disadvantages of an S Corporation 157

When Is an S Corporation a Wise Choice? 157

The Limited Liability Company 157

Social Enterprises 160

■ **IN THE ENTREPRENEURIAL SPOTLIGHT** From the Life on the Street to Running a Business 160

Nonprofit Organizations 161

Chapter Review 163 • Discussion Questions 164

Chapter 6 Franchising and the Entrepreneur 165

What Is a Franchise? 167

Types of Franchising 168

The Benefits of Buying a Franchise 168

A Business System 169

Management Training and Support 170

Brand-Name Appeal 171

Standardized Quality of Goods and Services 171

National Advertising Programs 171

Financial Assistance 172

Proven Products and Business Formats 173

- Centralized Buying Power 173
- Site Selection and Territorial Protection 173
- Increased Chance for Success 174

Drawbacks of Buying a Franchise 175

- Franchise Fees and Ongoing Royalties 175
- Strict Adherence to Standardized Operations 176
- Restrictions on Purchasing 176
- Limited Product Line 177
- Market Saturation 177
- Limited Freedom 178
- No Guarantee of Success 178

Franchising and the Law 178

- **ENTREPRENEURSHIP IN ACTION** After the Cheering Stops 181

The Right Way to Buy a Franchise 182

- Evaluate Yourself 183
- Research the Market 183
- Consider Your Franchise Options 184
- Get a Copy of the FDD and Study It 184
- Talk to Existing Franchisees 185
- Ask the Franchisor Some Tough Questions 185
- Make Your Choice 187

- **LESSONS FROM THE STREET-SMART ENTREPRENEUR** Make Sure You Select the Right Franchise 187

Franchise Contracts 188

- Termination 190
- Renewal 190
- Transfer and Buybacks 190

- **IN THE ENTREPRENEURIAL SPOTLIGHT** The Allure of Franchising 190

Trends in Franchising 191

- Changing Face of Franchisees 191
- Multiple-Unit Franchising 192
- International Opportunities 192

- **IN THE ENTREPRENEURIAL SPOTLIGHT** The Middle East: A Hot Spot for Franchising 193

- Smaller, Nontraditional Locations 195
- Conversion Franchising 195
- Refranchising 195
- Area Development and Master Franchising 195
- Cobranching 196
- Serving Dual-Career Couples and Aging Baby Boomers 197

Franchising as a Growth Strategy 197

- Unique Concept 197
- Replicable 197
- Expansion Plan 198
- Due Diligence 198
- Legal Guidance 198
- Support for Franchisees 198

Conclusion 198

- Chapter Review 198 • Discussion Questions 199

Chapter 7 Buying an Existing Business 201

Buying an Existing Business 203

- Advantages of Buying an Existing Business 203
- Disadvantages of Buying an Existing Business 205

The Search Stage 208

Self-Inventory 208

Develop a List of Criteria 209

Potential Candidates 209

Investigation 210

■ **LESSONS FROM THE STREET-SMART ENTREPRENEUR** Don't Get Burned When You Buy a Business 212

The Deal Stage 212

Methods for Determining the Value of a Business 213

■ **IN THE ENTREPRENEURIAL SPOTLIGHT** Bond Coffee 222

Negotiating the Deal 223

Letter of Intent 226

The Due Diligence Process 227

■ **ENTREPRENEURSHIP IN ACTION** What's the Deal? 231

The Transition Stage 232

Chapter Review 233 • Discussion Questions 234

Chapter 8 New Business Planning Process: Feasibility Analysis, Business Modeling, and Crafting a Winning Business Plan 235

Conducting a Feasibility Analysis 237

Industry and Market Feasibility Analysis 237

Product or Service Feasibility Analysis: Is There a Market? 242

Financial Feasibility Analysis: Is There Enough Margin? 243

Entrepreneur Feasibility: Is This Idea Right for Me? 245

Developing and Testing a Business Model 247

Value Proposition 247

Customer Segments 248

Customer Relationships 248

Channels 248

Key Activities 248

Key Resources 248

Key Partners 248

Revenue Streams 249

Cost Structure 249

■ **ENTREPRENEURSHIP IN ACTION** The Evolution of CoolPeopleCare's Business Model 250

The Benefits of Creating a Business Plan 251

Three Tests That Every Business Plan Must Pass 252

Reality Test 252

Competitive Test 252

Value Test 252

■ **IN THE ENTREPRENEURIAL SPOTLIGHT** The Battle of the Plans 253

The Elements of a Business Plan 254

Title Page and Table of Contents 255

The Executive Summary 255

Mission and Vision Statement 255

Company History 256

■ **IN THE ENTREPRENEURIAL SPOTLIGHT** A Business Plan: Don't Launch Without It 256

Description of Firm's Product or Service 257

Business and Industry Profile 258

Goals and Objectives 258

Business Strategy 258

Competitor Analysis 259
 Marketing Strategy 259
 Visualizing a Venture's Risks and Rewards 263

What Lenders and Investors Look for in a Business Plan 265

Capital 265
 Capacity 265
 Collateral 265
 Character 265
 Conditions 265

The Pitch: Making the Business Plan Presentation 266

Conclusion 268

Suggested Business Plan Elements 268

Chapter Review 271 • Discussion Questions 272

SECTION III Building a Marketing Plan 273

Chapter 9 Building a Bootstrap Marketing Plan 273

Creating a Bootstrap Marketing Plan 274

■ **IN THE ENTREPRENEURIAL SPOTLIGHT** Bootstrap Marketing
 in the New Music Industry 276

Market Diversity: Pinpointing the Target Market 277

Determining Customer Needs and Wants Through Market Research 278

How to Conduct Market Research 280

■ **IN THE ENTREPRENEURIAL SPOTLIGHT** Bootstrap Marketing Using
 Databases 282

Plotting a Bootstrap Marketing Strategy: Building a Competitive Edge 283

Find a Niche and Fill It 284
 Retain Existing Customers 285
 Concentration on Innovation 285

The Marketing Mix 288

Product 288
 Promotion 296

■ **LESSONS FROM THE STREET-SMART ENTREPRENEUR** Marketing
 to Millennials 298

Price 302
 Place 303

Chapter Review 304 • Discussion Questions 304

Chapter 10 Creative Use of Advertising and Promotion 305

Define Your Company's Unique Selling Proposition 306

Creating a Promotional Strategy 307

Publicity 307
 Personal Selling 309

■ **ENTREPRENEURSHIP IN ACTION** Should an Ambulance Service Hire
 Its First Sales Representative? 311

Advertising 312

Selecting Advertising Media 314

Media Options 316

■ **LESSONS FROM THE STREET-SMART ENTREPRENEUR** E-Mail Ads That
 Produce Results 322

How to Prepare an Advertising Budget 339

How to Advertise Big on a Small Budget 340

Cooperative Advertising 340
 Shared Advertising 341

Stealth Advertising	341
Other Ways to Save	341
Chapter Review	341 • Discussion Questions 342

Chapter 11 Pricing and Credit Strategies 343

Pricing: A Creative Blend of Art and Science	344
Three Powerful Pricing Forces: Image, Competition, and Value	348
Price Conveys Image	348
Competition and Prices	349
Focus on Value	350
Pricing Strategies and Tactics	351
New Product Pricing: Penetration, Skimming, or Sliding	352
Pricing Techniques for Established Products and Services	354
■ IN THE ENTREPRENEURIAL SPOTLIGHT How to Compete with Cheap Knockoffs of Your Successful Product	355
■ ENTREPRENEURSHIP IN ACTION Social Coupons: Beneficial—or Just Plain Bad—for Business?	359
■ LESSONS FROM THE STREET-SMART ENTREPRENEUR Enhancing Your Company's Pricing Power	361
Pricing Techniques for Retailers	362
Markup	362
Pricing Techniques for Manufacturers	364
Direct Costing and Pricing	365
Computing a Break-Even Selling Price	365
Pricing Techniques for Service Businesses	367
The Impact of Credit on Pricing	369
■ ENTREPRENEURSHIP IN ACTION To Accept Credit Cards or Not: That Is the Question	369
Credit Cards	370
Chapter Review	372 • Discussion Questions 373

Chapter 12 Global Marketing Strategies 375

Why Go Global?	378
Going Global: Strategies for Small Businesses	381
Creating a Presence on the Web	381
■ IN THE ENTREPRENEURIAL SPOTLIGHT Going Global One Step at a Time	383
Relying on Trade Intermediaries	384
The Value of Using Trade Intermediaries	385
Joint Ventures	387
Foreign Licensing	388
International Franchising	388
■ ENTREPRENEURSHIP IN ACTION Growing Beyond the Borders	391
Countertrading and Bartering	392
Exporting	392
■ LESSONS FROM THE STREET-SMART ENTREPRENEUR Finding Your Place in the World	400
Establishing International Locations	402
Importing and Outsourcing	402
Barriers to International Trade	404
Domestic Barriers	404
International Barriers	405
Political Barriers	406

Business Barriers 406

Cultural Barriers 407

International Trade Agreements 408

World Trade Organization 408

North American Free Trade Agreement 409

The Dominican Republic-Central America Free Trade Agreement 409

Conclusion 409

Chapter Review 411 • Discussion Questions 411

Chapter 13 E-Commerce and Entrepreneurship 413

Factors to Consider Before Launching into E-Commerce 416

Ten Myths of E-Commerce 418

Myth 1. If I Launch a Site, Customers Will Flock to It 418

Myth 2. Online Customers Are Easy to Please 420

Myth 3. Making Money on the Web Is Easy 420

Myth 4. Privacy Is Not an Important Issue on the Web 420

Myth 5. "Strategy? I Don't Need a Strategy to Sell on the Web! Just Give Me a Web Site, and the Rest Will Take Care of Itself" 421

Myth 6. The Most Important Part of Any E-Commerce Effort Is Technology 422

Myth 7. On the Web, Customer Service Is Not as Important as It Is in a Traditional Retail Store 422

Myth 8. Flashy Web Sites Are Better Than Simple Ones 423

Myth 9. It's What's Up Front That Counts 424

Myth 10. My Business Doesn't Need a Web Site 424

Strategies for E-Success 425

Focus on a Niche in the Market 426

Develop a Community 426

Attract Visitors by Giving Away "Freebies" 427

Make Creative Use of E-Mail, but Avoid Becoming a "Spammer" 427

Sell the "Experience" 428

Make Sure Your Web Site Says "Credibility" 429

Make the Most of the Internet's Global Reach 429

■ **LESSONS FROM THE STREET-SMART ENTREPRENEUR** How to Make Your Business Ready for Global E-Commerce 431

Go Mobile 432

Promote Your Web Site Online and Offline 433

Use Social Media Tools to Attract and Retain Customers 433

■ **ENTREPRENEURSHIP IN ACTION** Enhancing E-Commerce with Social Media 434

Capture Local Traffic 435

Develop an Effective Search Engine Optimization Strategy 435

Designing a Killer Web Site 438

Decide How to Bring Your Site to Life 439

Start with Your Target Customer 439

Give Customers What They Want 439

Select an Intuitive Domain Name 439

Make Your Web Site Easy to Navigate 441

Provide Customer Ratings and Reviews 442

Offer Suggestions for Related Products 442

Add Wish List Capability 442

Create a Gift Idea Center 442

Establish the Appropriate Call to Action on Each Page 442

Build Loyalty by Giving Online Customers a Reason to Return to Your Web Site	442
Establish Hyperlinks with Other Businesses, Preferably Those Selling Products or Services That Complement Yours	442
Include an E-Mail Option, an Address, and a Telephone Number on Your Site	443
Give Shoppers the Ability to Track Their Orders Online	443
Offer Web-Only Specials	443
Use the Power of Social Media	443
Use Customer Testimonials	443
Follow a Simple Design	443
Assure Customers That Online Transactions Are Secure	445
Post Shipping and Handling Charges Up Front	445
Create a Fast, Simple Checkout Process	445
Provide Customers Multiple Payment Options	445
Confirm Transactions	445
Keep Your Site Fresh	445
Rely on Analytics to Improve Your Site	445
Test Your Site Often	445
Consider Hiring a Professional Designer	446
■ IN THE ENTREPRENEURIAL SPOTLIGHT Web Site Makeovers	446
Tracking Web Results	447
Software Solutions	447
Ensuring Web Privacy and Security	448
Privacy	448
Security	448
Chapter Review	451 • Discussion Questions 452

SECTION IV Building a Financial Plan 453

Chapter 14 Creating a Solid Financial Plan 453

Basic Financial Reports	454
The Balance Sheet	455
The Income Statement	456
The Statement of Cash Flows	458
Creating Projected Financial Statements	459
Projected Statements for the Small Business	459
Ratio Analysis	465
12 Key Ratios	466
■ IN THE ENTREPRENEURIAL SPOTLIGHT Pitcher Strikes Out While Trying to Hit a Home Run	475
Interpreting Business Ratios	476
What Do All These Numbers Mean?	479
■ LESSONS FROM THE STREET-SMART ENTREPRENEUR Gaining a Competitive Edge	481
Break-Even Analysis	482
Calculating the Break-Even Point	483
Adding a Profit	484
Break-Even Point in Units	484
Constructing a Break-Even Chart	485
Using Break-Even Analysis	486
■ IN THE ENTREPRENEURIAL SPOTLIGHT Open Book Management	487
Chapter Review	488 • Discussion Questions 488

Chapter 15 Managing Cash Flow 489

Cash Management 490

Cash and Profits Are Not the Same 493

■ **IN THE ENTREPRENEURIAL SPOTLIGHT** Cash Flow and Pass-Through Entities 494

Preparing a Cash Budget 495

■ **LESSONS FROM THE STREET-SMART ENTREPRENEUR** A Short Season 496

Step 1: Determining an Adequate Minimum Cash Balance 498

Step 2: Forecasting Sales 498

Step 3: Forecasting Cash Receipts 502

Step 4: Forecasting Cash Disbursements 502

Step 5: Estimating the End-of-Month Cash Balance 504

■ **ENTREPRENEURSHIP IN ACTION** Rowena's Cash Budget 505

The "Big Three" of Cash Management 506

Accounts Receivable 506

Accounts Payable 510

Inventory 512

■ **IN THE ENTREPRENEURIAL SPOTLIGHT** Be Ready for Inflation! 514

Bootstrapping to Avoid the Cash Crunch 515

Bootstrapping Overhead 516

Bootstrapping Employee Costs 518

Bootstrapping Operating Costs 518

Other Tools for Bootstrapping and Preserving Cash 518

Conclusion 521

Chapter Review 521 • Discussion Questions 522

Chapter 16 Sources of Equity Financing 523

Planning for Capital Needs 526

Fixed Capital 526

Working Capital 527

Sources of Equity Financing 527

Funding from Founders 528

■ **IN THE ENTREPRENEURIAL SPOTLIGHT** Bootstrapping a Technology Start-Up 530

Friends and Family Members 531

Crowdfunding 532

Accelerators 534

■ **ENTREPRENEURSHIP IN ACTION** Launching a Business in a University Accelerator 535

Angels 536

Strategic Investments Through Corporate Venture Capital 539

■ **IN THE ENTREPRENEURIAL SPOTLIGHT** Funding Does Not Ensure Success 540

Venture Capital Companies 541

Policies and Investment Strategies 542

Public Stock Sale ("Going Public") 547

Chapter Review 549 • Discussion Questions 550

Chapter 17 Sources of Debt Financing 551■ **IN THE ENTREPRENEURIAL SPOTLIGHT** A Tale of Two Borrowers 554

Sources of Debt Capital 555

Commercial Banks 555

Short-Term Loans 556

Intermediate- and Long-Term Loans 558

■ **LESSONS FROM THE STREET-SMART ENTREPRENEUR** How to Maintain a Positive Relationship with Your Banker 558

Nonbank Sources of Debt Capital 559

Asset-Based Lenders 559

Trade Credit 561

Equipment Suppliers 562

Commercial Finance Companies 562

Stock Brokerage Houses 563

Insurance Companies 563

Credit Unions 563

Bonds 564

Private Placements 564

Small Business Investment Companies 565

Federally Sponsored Programs 566

Economic Development Administration 566

Department of Housing and Urban Development 566

U.S. Department of Agriculture's Rural Business and Cooperative Program and Business Program 567

Small Business Innovation Research Program 567

■ **ENTREPRENEURSHIP IN ACTION** Where Do We Turn Now? 568

The Small Business Technology Transfer Program 568

Small Business Administration 568

SBA Express Loan Programs 569

SBA Loan Programs 569

State and Local Loan Development Programs 575

■ **IN THE ENTREPRENEURIAL SPOTLIGHT** Alternative Sources of Financing 575

Other Methods of Financing 576

Factoring Accounts Receivable 576

Leasing 577

Cash Advances 577

Peer-to-Peer Loans 578

Credit Cards 578

Where *Not* to Seek Funds 578

Chapter Review 579 • Discussion Questions 580

SECTION V Building an Operating Plan 581

Chapter 18 Location, Layout, and Physical Facilities 581

Stages in the Location Decision 582

Selecting the Region 583

Selecting the State 586

Selecting the City 589

The Final Site Selection 596

■ **ENTREPRENEURSHIP IN ACTION** The Ideal Spot 596

Location Criteria for Retail and Service Businesses 598

Trade Area Size 598

Customer Traffic 599

Adequate Parking 599

Reputation 600

Visibility 600

The Index of Retail Saturation 600

Reilly's Law of Retail Gravitation 601

■ **IN THE ENTREPRENEURIAL SPOTLIGHT** Transformed Locations 601

Location Options for Retail and Service Businesses 602

- Central Business District 603
- Neighborhood Locations 603
- Shopping Centers and Malls 603
- Near Competitors 606
- Shared Spaces 607
- Inside Large Retail Stores 607
- Nontraditional Locations 607
- Home-Based Businesses 607
- On the Road 608

■ **LESSONS FROM THE STREET-SMART ENTREPRENEUR** How to Launch a Successful Pop-Up Shop 608

The Location Decision for Manufacturers 610

- Foreign Trade Zones 610
- Business Incubators 611

Layout and Design Considerations 612

- Size and Adaptability 613
- External Appearance 613
- Entrances 614
- The Americans with Disabilities Act 614
- Signs 615
- Interiors 615
- Drive-Through Windows 616
- Sight, Sound, Scent, and Lighting 617
- Sustainability and Environmentally Friendly Design 619

Layout: Maximizing Revenues, Increasing Efficiency, and Reducing Costs 619

- Layout for Retailers 619

■ **IN THE ENTREPRENEURIAL SPOTLIGHT** The Secrets of Successful Retail Layouts 621

- Layout for Manufacturers 622

Chapter Review 625 • Discussion Questions 626

Chapter 19 Supply Chain Management 627

■ **LESSONS FROM THE STREET-SMART ENTREPRENEUR** How to Manage Supply Chain Risk 631

Creating a Purchasing Plan 632

Quality 634

Quantity: The Economic Order Quantity 639

- Cost of Units 641
- Holding (Carrying) Costs 641
- Setup (Ordering) Costs 642
- Solving for EOQ 642
- EOQ with Usage 645

Price 646

- Trade Discounts 646
- Quantity Discounts 646
- Cash Discounts 647

Timing—When to Order 649

Managing the Supply Chain: Vendor Analysis and Selection 654

■ **IN THE ENTREPRENEURIAL SPOTLIGHT** Integrating Local Suppliers into a Complex Supply Chain 655

- Vendor Certification 657
- The Final Decision 659

■ **IN THE ENTREPRENEURIAL SPOTLIGHT** Back in the USA 660

Legal Issues Affecting Purchasing 662

Title 662

Risk of Loss 662

Insurable Interest 663

■ **ENTREPRENEURSHIP IN ACTION** Who Bears the Loss for a Shipment of Missing Watches? 663

Receiving Merchandise 664

Selling on Consignment 664

Chapter Review 665 • Discussion Questions 665

Chapter 20 Managing Inventory 667

Inventory Control Systems 672

Perpetual Inventory Systems 672

■ **IN THE ENTREPRENEURIAL SPOTLIGHT** An Ideal Inventory Solution 674

Partial Inventory Control Systems 674

Physical Inventory Count 678

Radio Frequency Identification Tags 678

■ **LESSONS FROM THE STREET-SMART ENTREPRENEUR** Best Practices in Inventory Management 680

Just-in-Time Inventory Control Techniques 681

Just-in-Time Techniques 681

Turning Slow-Moving Inventory into Cash 683

Protecting Inventory from Theft 685

Employee Theft 685

■ **ENTREPRENEURSHIP IN ACTION** Misplaced Trust 691

Shoplifting 692

■ **ENTREPRENEURSHIP IN ACTION** A Tale of Two Shoplifters 696

Conclusion 700

Chapter Review 700 • Discussion Questions 701

Chapter 21 Staffing and Leading a Growing Company 703

The Entrepreneur's Role as Leader 704

Hiring the Right Employees: The Company's Future Depends on It 707

How to Hire Winners 708

■ **ENTREPRENEURSHIP IN ACTION** Facebook Interview Process 714

Conducting the Interview 715

■ **ENTREPRENEURSHIP IN ACTION** Building an Intentional Culture at Zappos 719

Building the Right Culture and Organizational Structure 720

Managing Growth and a Changing Culture 722

■ **IN THE ENTREPRENEURIAL SPOTLIGHT** What a Great Place to Work! 723

Team-Based Management 724

Communicating Effectively 725

Improving Communication 726

Listening 727

The Informal Communication Network: The "Grapevine" 728

The Challenge of Motivating Workers 728

Empowerment 728

Job Design 730

Rewards and Compensation 732

■ **LESSONS FROM THE STREET-SMART ENTREPRENEUR** Sabbaticals 735

Performance Feedback 736

Performance Appraisal 737

Chapter Review 739 • Discussion Questions 740

SECTION VI Legal Aspects of Small Business: Succession, Ethics, and Government Regulation 741

Chapter 22 Management Succession and Risk Management Strategies in the Family Business 741

Family Businesses 742

Benefits of Family Businesses 742

The Dark Side of Family Businesses 743

Characteristics of Successful Family Businesses 745

Exit Strategies 748

Selling to Outsiders 749

Selling to Insiders 749

■ **LESSONS FROM THE STREET-SMART ENTREPRENEUR** How to Set Up an ESOP 751

Management Succession 752

■ **IN THE ENTREPRENEURIAL SPOTLIGHT** Can Your Family Business Survive for Centuries? 755

Developing a Management Succession Plan 756

Buy-Sell Agreement 760

Lifetime Gifting 761

Setting Up a Trust 761

Risk Management Strategies 763

The Basics of Insurance 765

Types of Insurance 766

■ **IN THE ENTREPRENEURIAL SPOTLIGHT** The Aftermath of a Storm 770

Controlling Insurance Costs 777

Chapter Review 779 • Discussion Questions 780

Chapter 23 The Legal Environment: Business Law and Government Regulation 781

The Law of Contracts 783

Agreement 783

Contractual Capacity 786

Legality 787

Breach of Contract 788

The Uniform Commercial Code 788

Sales and Sales Contracts 789

Breach of Sales Contracts 791

Sales Warranties and Product Liability 791

Protection of Intellectual Property Rights 794

Patents 795

Trademarks 798

■ **ENTREPRENEURSHIP IN ACTION** Protecting Your Brand 799

Copyrights 800

Protecting Intellectual Property 800

The Law of Agency 801

Bankruptcy 802

Forms of Bankruptcy 803

■ IN THE ENTREPRENEURIAL SPOTLIGHT A Second Chance at Success 805

Government Regulation 806

Trade Practices 807

Consumer Protection 809

■ LESSONS FROM THE STREET-SMART ENTREPRENEUR Are Your Ads Setting You Up for Trouble? 810

Consumer Credit 811

Environmental Law 812

■ ENTREPRENEURSHIP IN ACTION Small Businesses and Eminent Domain 813

The Affordable Care Act 814

Chapter Review 815 • Discussion Questions 816

APPENDIX The picturebooth co. 817

Cases 831

Endnotes 846

Index 884

In memory of Lannie H. Thornley and Mildred T. Myers

To Louise Scarborough and John Scarborough. Your love, support,
and encouragement have made all the difference.

—NMS

To my grandchildren Lucy Kuyper, Ellie Cornwall, and Isaac Cornwall.

—JRC

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Preface

The field of entrepreneurship is experiencing incredible rates of growth, not only in the United States but around the world as well. People of all ages, backgrounds, and nationalities are launching businesses of their own and, in the process, are reshaping the global economy. Entrepreneurs are discovering the natural advantages that result from their companies' size—speed, agility, flexibility, sensitivity to customers' needs, creativity, a spirit of innovation, and many others—give them the ability to compete successfully with companies many times their size and that have budgets to match. As large companies struggle to survive wrenching changes in competitive forces by downsizing, merging, and restructuring, the unseen army of small businesses continues to flourish and to carry the nation's economy on its back. Entrepreneurs who are willing to assume the risks of the market to gain its rewards are the heart of capitalism. These men and women, with their bold entrepreneurial spirits, have led our nation into prosperity throughout its history. Entrepreneurship also plays a significant role in countries throughout the world. Across the globe, entrepreneurs are creating small companies that lead nations to higher standards of living and hope for the future.

In the United States, we can be thankful for a strong small business sector. Small companies deliver the goods and services we use every day, provide jobs and training for millions of workers, and lead the way in creating the products and services that make our lives easier and more enjoyable. Small businesses were responsible for introducing to the world the elevator, the airplane, FM radio, the zipper, the personal computer, and a host of other marvelous inventions. The imaginations of the next generation of entrepreneurs of which you may be a part will determine other fantastic products and services that lie in our future! Whatever those ideas may be, we can be sure of one thing: Entrepreneurs will be there to make them happen.

The purpose of this book is to open your mind to the possibilities, the challenges, and the rewards of owning your own business and to provide the tools you will need to be successful if you choose the path of the entrepreneur. It is not an easy road to follow, but the rewards—both tangible and intangible—are well worth the risks. Not only may you be rewarded financially for your business ideas, but also, like entrepreneurs the world over, you will be able to work at something you love! If you do not pursue a career as an entrepreneur, you still need to understand entrepreneurship because you most likely will be working in, doing business with, or competing against small businesses throughout your career.

Now in its eleventh edition, *Entrepreneurship and Effective Small Business Management* has stood the test of time by bringing to generations of students the material they need to launch and manage a small business successfully in a hotly competitive environment. In writing this edition, we have worked hard to provide you with plenty of practical, “hands-on” tools and techniques to make your business ventures successful. Many people launch businesses every year, but only some of them succeed. This book provides the tools to help you learn the *right* way to launch and manage a small business with the staying power to succeed and grow.

What's New to This Edition?

The first change you will notice is in the title of the book. We believe that the new title, *Entrepreneurship and Effective Small Business Management*, reflects this edition's emphasis on the entrepreneurial process. When we started writing this book nearly 35 years ago, small business management was the topic of choice on college campuses; today, the emphasis of college courses is on entrepreneurship. This edition reflects that change by including enhanced coverage of the entrepreneurial process, including the creative process and developing a business model, while retaining thorough coverage of traditional topics that are required for entrepreneurial success, such as e-commerce, managing cash flow, selecting the right location and designing the proper layout, and supply chain management.

Another important change is the addition of Jeff Cornwall as coauthor. Jeff, who holds the Jack C. Massey Chair of Entrepreneurship at Belmont University, is an experienced and successful

entrepreneur, a dedicated teacher, a respected author, and an acknowledged expert in the field of entrepreneurship. The United States Association for Small Business and Entrepreneurship has honored Jeff on numerous occasions for his contributions to the field of entrepreneurship, naming him a Longnecker/USASBE Fellow in 2006 and awarding the Center for Entrepreneurship that he headed at Belmont University the USASBE National Model Undergraduate Program of the Year Award in 2008. USASBE also recognized Jeff in 2013 with the prestigious Outstanding Educator of the Year award. He served as USASBE's president in 2010. Jeff's blog, *The Entrepreneurial Mind*, is one of the most popular small business blogs on the Internet, named by *Forbes* as a "Best of the Web" selection.

This edition of *Entrepreneurship and Effective Small Business Management* also includes many new pedagogical features that reflect the dynamic and exciting field of entrepreneurship.

- The addition of a chapter on the creative process that explores how the entrepreneurial mind works. This innovative chapter also explains how entrepreneurs can stimulate their own creativity and the creativity of the people in their organizations.
- Because your generation is keenly interested in ethics and social responsibility, we placed the updated chapter on ethics and social responsibility right up front (Chapter 2). This thought-provoking chapter gives you the opportunity to wrestle with some of the ethical dilemmas that entrepreneurs face every day in business. Encouraging you to think about and discuss these issues now prepares you for making the right business decisions later. We also have included more extensive coverage of social entrepreneurship in this edition, including new forms of ownership designed specifically for social entrepreneurs.
- This edition includes enhanced coverage of social media, such as Facebook, Twitter, Pinterest, YouTube, and others, throughout the entire book, including ways to use social media as a powerful bootstrap marketing technique; a fund-raising tool; a quick, inexpensive way to test business models; and many others.
- We have included more material on bootstrapping throughout the book because today's young entrepreneurs must be prepared to launch their ventures with limited resources and little access to outside funding.
- We have updated the chapters on financing small businesses to reflect the current state of financial markets. Included in these updates is discussion of the newest form of financing known as crowdfunding.
- We have revised the chapter on creating a business plan to reflect the modern view of the business planning process. In addition to retaining extensive coverage of how to write a business plan, we have expanded the section on conducting a feasibility analysis and added a section on using the business model canvas to develop a viable business model. This chapter also shows how to take the ideas that pass the feasibility analysis, build a business model around them, and create a business plan that serves as a guide to a successful launch.
- Almost all of the real-world examples in this edition are new and are easy to spot because they are highlighted by in-margin markers. These examples allow you to see how entrepreneurs are putting into practice the concepts that you are learning in the book and in class. The examples are designed to help you to remember the key concepts in the course. The business founders in these examples also reflect the diversity that makes entrepreneurship a vital part of the global economy.
- To emphasize the practical nature of this book, every chapter includes a new or updated "Lessons from the Street-Smart Entrepreneur" feature that focuses on a key concept and offers practical advice about how you can put it to practice in your own business. These features include topics such as "Questions to Spur the Imagination," "Thriving on Change," "How to Make Your Business Ready for Global E-Commerce," "E-Mail Ads That Produce Results," "How to Set Up an ESOP," and many others.
- We have updated all of the "Entrepreneurship in Action" features that have proved to be so popular with both students and professors. Every chapter contains at least one of these short cases that describes a decision that an entrepreneur faces and asks you to assume the role of consultant and advise the entrepreneur on the best course of action.

This feature includes the fascinating stories of entrepreneurs who see space as the next entrepreneurial frontier (including Elon Musk's SpaceX and Richard Branson's Virgin Galactic), professional athletes who have become successful franchisees (including Jamal Mashburn, Drew Brees, and Angelo Crowell), and using bootstrap marketing techniques to build a name in the music industry (Erin Anderson, founder of Olivia Management). Each one poses a problem or an opportunity, includes questions that focus your attention on key issues, and helps you hone your analytical and critical thinking skills.

- This edition includes 10 new brief cases that cover a variety of topics (see the Case Matrix that appears on the inside cover). All of the cases are about small companies, and most are real companies that you can research online. These cases challenge you to think critically about a variety of topics that are covered in the book—from managing cash flow in a seasonal business and choosing a location for a restaurant's second branch to deciding how to deal with the Affordable Care Act and setting prices for a social entrepreneur's eco-friendly apparel.
- Almost all of the “In the Entrepreneurial Spotlight” features are new to this edition as well. These inspirational true stories invite you to explore the inner workings of entrepreneurship by advising entrepreneurs who face a variety of real-world business issues. Topics addressed in these “Spotlights” include college students applying the entrepreneurial skills they are learning in their classes by starting businesses while they are still in school, entrepreneurs who discover that for them franchising is the ideal path to entrepreneurship, a television makeup artist who launched her own line of makeup and faces decisions about promoting it, entrepreneurs who are enhancing their companies' e-commerce efforts with social media, and many others.
- The content of every chapter reflects the most recent statistics, studies, surveys, and research about entrepreneurship and small business management. Theory, of course, is important, but this book explains how entrepreneurs are *applying* the theory of entrepreneurship every day. You will learn how to launch and manage a business the *right* way by studying the most current concepts in entrepreneurship and small business management.
- A sample business plan for The Picturebooth Company serves as a model for you as you create plans for your own business ideas. Ross Hill wrote this plan for a business that sells and rents portable photo booths while he was a student and used it to launch his business. Not only has Ross used this plan to guide his successful company, but he also has used it to raise more than \$70,000 in start-up capital. Hill's plan won three business plan competitions, including the national competition sponsored by Collegiate DECA.
- This edition features an updated, attractive, full-color design and layout that is designed to be user-friendly. Each chapter begins with learning objectives, which are repeated as in-margin markers within the chapter to guide you as you study.

Policymakers across the world are discovering that economic growth and prosperity lie in the hands of entrepreneurs—those dynamic, driven men and women who are committed to achieving success by creating and marketing innovative, customer-focused new products and services. Not only are these entrepreneurs creating economic prosperity, but many of them are also striving to make the world a better place in which to live by using their businesses to solve social problems. Those who possess this spirit of entrepreneurial leadership continue to lead the economic revolution that has proved repeatedly its ability to raise the standard of living for people everywhere. We hope that by using this book in your small business management or entrepreneurship class, you will join this economic revolution to bring about lasting, positive changes in your community and around the world. If your goal is to launch a successful business of your own, *Entrepreneurship and Effective Small Business Management* is the ideal book for you!

This eleventh edition of *Entrepreneurship and Effective Small Business Management* provides you with the knowledge you need to launch a business that has the greatest chance for success. One of the hallmarks of every edition of this book has been a very practical, “hands-on” approach to entrepreneurship. Our goal is to equip you with the tools you need for entrepreneurial success. By combining this textbook with your professor's expertise and enthusiasm, we believe that you will be equipped to follow your dreams of becoming a successful entrepreneur.

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CHAPTER 1

Entrepreneurs: The Driving Force Behind Small Business



Learning Objectives

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

1. Define the role of the entrepreneur in the U.S. economy.
2. Describe the entrepreneurial profile.
3. Explain how entrepreneurs spot business opportunities.
4. Describe the benefits of owning a small business.
5. Describe the potential drawbacks of owning a small business.
6. Explain the forces that are driving the growth of entrepreneurship.
7. Discuss the role of diversity in small business and entrepreneurship.
8. Describe the contributions small businesses make to the U.S. economy.
9. Put business failure into the proper perspective.
10. Explain how small business owners can avoid the major pitfalls of running a business.

All our dreams can come true, if we have the courage to pursue them.

—Walt Disney

Success is the prize given to those who try and fail willingly.

—Jeffrey Bryant

The Role of the Entrepreneur

1.

Define the role of the entrepreneur in the U.S. economy.

Welcome to the world of the entrepreneur! Every year, entrepreneurs in the United States alone launch more than 6.5 million businesses.¹ These people, who come from diverse backgrounds, are striving to realize that Great American Dream of owning and operating their own businesses. Some of them have chosen to leave the security of the corporate hierarchy in search of independence, others have been forced out of large corporations as a result of downsizing, and still others have from the start chosen the autonomy that owning a business offers. The impact of these entrepreneurs on the nation's economy goes far beyond their numbers, however. The resurgence of the entrepreneurial spirit they are spearheading is the most significant economic development in recent business history. These heroes of the business world are introducing innovative products and services, pushing back technological frontiers, creating new jobs, opening foreign markets, and, in the process, sparking the U.S. economy.

Entrepreneurs, once shunned as people who could not handle a “real” job in the corporate world, now are the celebrities of the global economy. They create companies, jobs, wealth, and innovative solutions to some of the world's most vexing problems, from relief for sore feet to renewable energy sources. “The story of entrepreneurship entails a never ending search for new and imaginative ways to combine the factors of production into new methods, processes, technologies, products, or services,” says one government economist who has conducted extensive research on entrepreneurship's impact.² In short, small business is “cool,” and entrepreneurs are the rock stars of the business world.

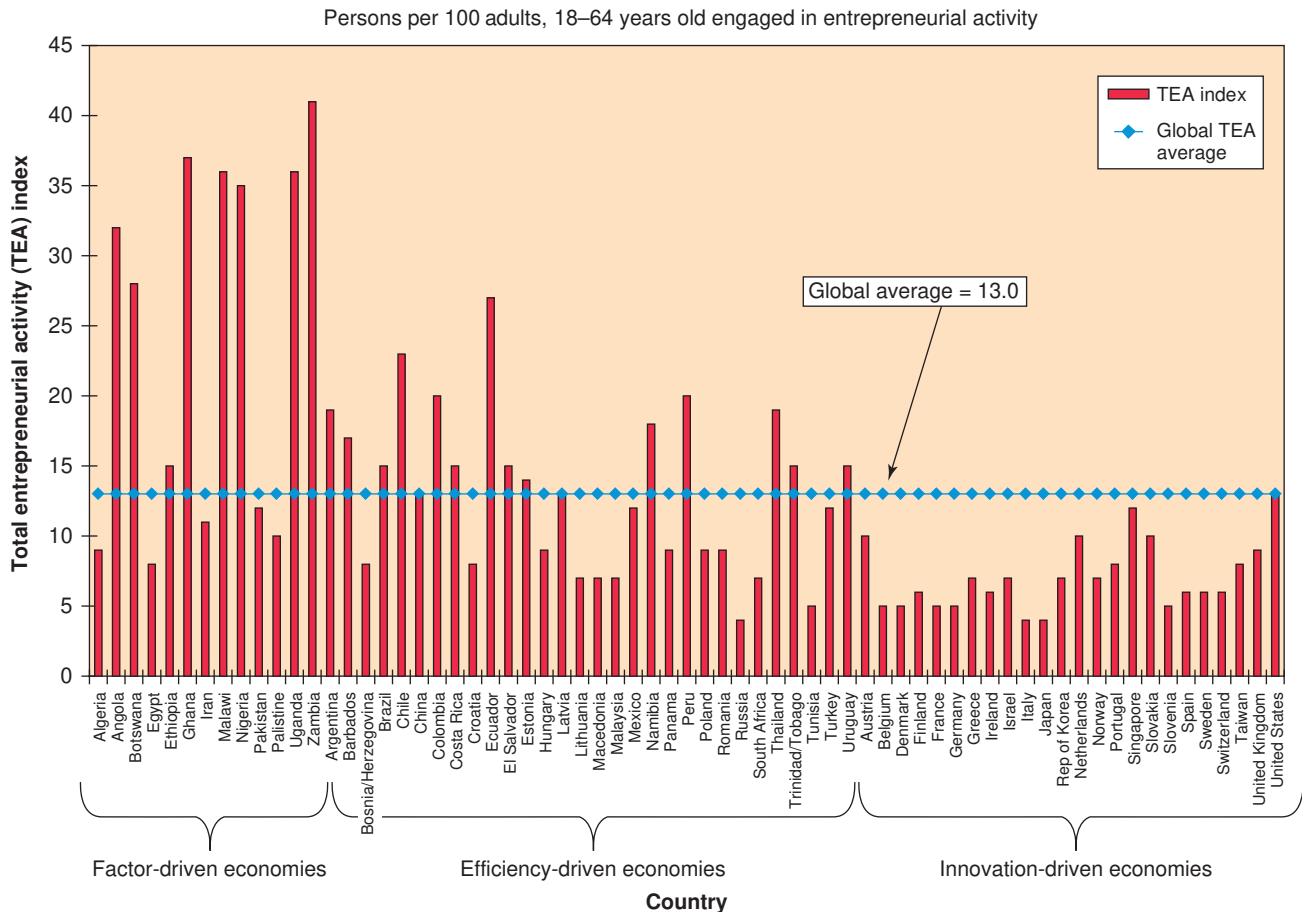
The last several decades have seen record numbers of entrepreneurs launching businesses. One important indicator of the popularity of entrepreneurship is the keen interest expressed by students in creating their own businesses. According to a recent Gallup survey, 77 percent of students in grades 5 through 12 say that they “want to be their own bosses.”³ Growing numbers of young people are choosing entrepreneurship as a career (some of them while they are still in school) rather than joining the ranks of the pin-striped masses in major corporations. A recent poll by the Young Entrepreneur Council reports that 21 percent of recent college graduates started businesses out of necessity because they could not find jobs elsewhere.⁴ Many others choose to start their own companies because they prefer the autonomy of entrepreneurship to the hierarchy of corporate America. In fact, when many young people hear the phrase “corporate America,” they do not think of career opportunities; instead, images of the film *Office Space* come to mind. In short, the probability that you will become an entrepreneur at some point in your life has never been higher!

Research suggests that entrepreneurial activity remains vibrant not only in the United States but around the world as well. According to the Global Entrepreneurship Monitor, a study of entrepreneurial activity across the globe, 13 percent of the U.S. population aged 18 to 64, more than one in eight adults, is engaged in entrepreneurial activity. The level of entrepreneurial activity in the United States is the same as the global average of 13.0 percent and above the average (7.1 percent) for innovation-driven economies (see Figure 1.1).⁵

Entrepreneurship has been part of the fabric of the United States since its earliest days. Many of the nation's founding fathers were entrepreneurs. Thomas Jefferson started a nailery (a business that transformed iron into nails) in 1794 and purchased high-tech (at the time) nail-making machinery in 1796 to increase his company's production. Benjamin Franklin was an inventor and in 1729 at the age of 21, convinced several friends to finance his purchase of a newspaper that he renamed *The Pennsylvania Gazette*, a business that made him quite wealthy.⁶ That same entrepreneurial spirit remains strong today as it does in other countries. Entrepreneurs in every corner of the world are launching businesses thanks to technology that provides easy access to both local and global markets at start-up. Even countries that traditionally are not known as hotbeds of entrepreneurial activity are home to promising start-up companies. Despite decades of economic problems, Zimbabwe's economy is growing once again, and small businesses are driving much of its growth.



ENTREPRENEURIAL PROFILE: Divine Ndhlukula: Securico One of Zimbabwe's most successful entrepreneurs is Divine Ndhlukula, who in 1998 started a small security company, Securico, in her home with a modest investment and just four employees. Ndhlukula says that she dreamed of an entrepreneurial career while she was a student studying accounting. After brief stints in farming, broadcasting, and insurance, she saw an opportunity in the security services business and

**FIGURE 1.1****Entrepreneurial Activity Across the Globe**

Source: Based on Siri Roland Xavier, Donna Kelley, Jacqui Kew, Mike Herrington, and Arne Vorderwülbecke, *Global Entrepreneurship Monitor 2012 Global Report*, Babson College, Universidad del Desarrollo, Universiti Tun Abdul Razak, and Global Entrepreneurship Research Consortium, 2012, pp. 58–59.

started Securico, which targets multinational companies operating in Zimbabwe. “People who aspire to be in business think that you have to have lots of money to start,” Ndhlukula says. “It’s not that. It’s really the passion.” Today Securico, which now provides a full range of security services, employs more than 3,500 people, generates sales of more than \$16 million, and was recently was recognized by Africa Awards for Entrepreneurship.⁷

In recent years, large companies in the United States and around the world have engaged in massive downsizing campaigns, dramatically cutting the number of managers and workers on their payrolls. This flurry of “pink slips” has spawned a new population of entrepreneurs—“castoffs” from large corporations (many of whom thought they would be lifetime ladder climbers in their companies) with solid management experience and many productive years left before retirement.

One casualty of this downsizing has been the long-standing notion of job security in large corporations, which all but destroyed the notion of loyalty and has made workers much more mobile. In the 1960s, the typical employee had worked for an average of four employers by the time he or she reached age 65; today, the average employee has had eight employers by the time he or she is 30.⁸ Members of Generation X (those born between 1965 and 1980) and Generation Y (those born between 1981 and 1995), in particular, no longer see launching a business as being a risky career path. Having witnessed large companies lay off their parents after many years of service, these young people see entrepreneurship as the ideal way to create their own job security and career success! They are eager to control their own destinies.

This downsizing trend among large companies also has created a more significant philosophical change. It has ushered in an age in which “small is beautiful.” Thirty years ago, competitive

conditions favored large companies with their hierarchies and layers of management; today, with the pace of change constantly accelerating, fleet-footed, agile, small companies have the competitive advantage. These nimble competitors dart into and out of niche markets as they emerge and recede, they move faster to exploit opportunities the market presents, and they use modern technology to create within a matter of weeks or months products and services that once took years and all of the resources a giant corporation could muster. The balance has tipped in favor of small entrepreneurial companies.

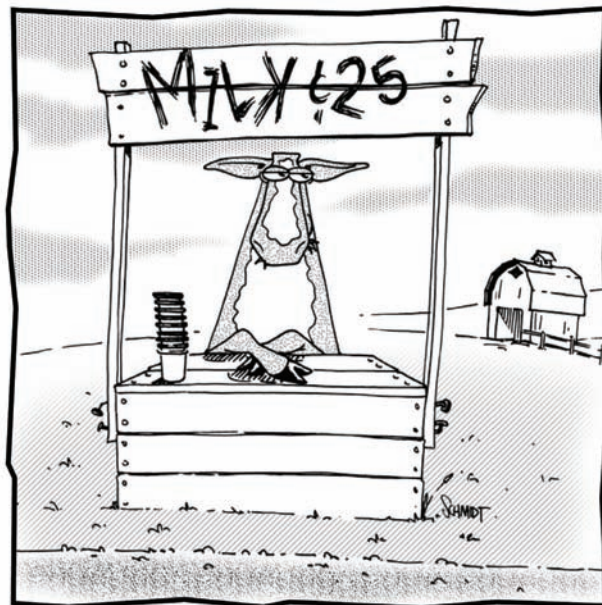
Entrepreneurship also has become mainstream. Although launching a business is never easy, the resources available today make the job much simpler today than ever before. Thousands of colleges and universities offer courses in entrepreneurship, the Internet hosts a sea of information on launching a business, sources of capital that did not exist just a few years ago are now available, and business incubators hatch companies at impressive rates. Once looked down on as a choice for people unable to hold a corporate job, entrepreneurship is now an accepted and respected part of our culture.

Another significant shift in the bedrock of our nation's economic structure is influencing this swing in favor of small companies. The nation is rapidly moving away from an industrial economy to a knowledge-based one. What matters now is not so much the traditional factors of production but *knowledge* and *information*. The final impact of this shift will be as dramatic as the move from an agricultural economy to an industrial one that occurred more than 200 years ago in the United States. A knowledge-based economy favors small businesses because the cost of managing and transmitting knowledge and information is very low, and computer and information technologies are driving these costs lower still.

No matter why they start their businesses, entrepreneurs continue to embark on one of the most exhilarating—and one of the most frightening—adventures ever known: launching a business. It's never easy, but it can be incredibly rewarding, both financially and emotionally. One successful business owner claims that an entrepreneur is “anyone who wants to experience the deep, dark canyons of uncertainty and ambiguity and wants to walk the breathtaking highlands of success. But I caution: Do not plan to walk the latter until you have experienced the former.”⁹ True entrepreneurs see owning a business as the real measure of success. Indeed, entrepreneurship often provides the only avenue for success to those who otherwise might have been denied the opportunity.

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

Source: CartoonStock.



What Is an Entrepreneur?

Adapted from the French verb *entreprendre*, which means “to undertake” or “to attempt,” the word “entrepreneur” was introduced in 1755 in economist Richard Cantillon’s book *Essay on the Nature of Trade in General*. Cantillon defined an entrepreneur as a producer with nonfixed income and uncertain returns.¹⁰ At any given time, an estimated 9 million adults in the United States are engaged in launching a business, traveling down the path of entrepreneurship that Cantillon first wrote about more than 250 years ago.¹¹ 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 opportunities and assembling the necessary resources to capitalize on those opportunities. Entrepreneurs usually start with nothing more than an idea—often a simple one—and then find and organize the resources necessary to transform that idea into a sustainable business. Harvard Business School professor Howard Stevenson says that entrepreneurs “see an opportunity and don’t feel constrained from pursuing it because they lack resources. They’re *used* to making do without resources.”¹² In essence, entrepreneurs are *disrupters*, upsetting the traditional way of doing things by creating new ways to do them.

What entrepreneurs have in common is the ability to spot opportunities and the willingness to capitalize on them.



ENTREPRENEURIAL PROFILE: Ted Southern and Nikolay Moiseev: Final Frontier

Design Ted Southern, an artist and designer, and Nikolay Moiseev, a mechanical engineer, launched Final Frontier Design, when they saw the opportunity to create functional, affordable space suits for the burgeoning commercial space flight industry (see the accompanying “Entrepreneurship in Action” feature on page 9). “We recognized a new market in the suborbital space flight industry,” says Southern. Their Brooklyn, New York–based start-up makes space suits that are more flexible than the traditional space suits designed by NASA and include ergonomic designs, clever reinforcements, and innovative joints that allow space travelers (the suits are designed for use inside spacecraft, not for space walks) to move more easily and fluidly. Existing space suits are “expensive, heavy, and not very functional,” says Southern. “We think we can offer real improvements in both performance and cost.” Moiseev designed space suits for the Russian Space Agency for nearly 20 years before moving to the United States, where he and Southern, who was best known for designing wings for the models in Victoria’s Secret runway shows, teamed up to design gloves for astronauts in a competition sponsored by NASA. (They won a \$100,000 prize that they used to launch Final Frontier Design.) After raising more than \$27,000 on crowdfunding site Kickstarter, the entrepreneurs have enough capital to create a prototype of their “3G” spacesuit that they say will sell for as little as \$50,000, far below the \$12 million cost for a traditional space suit.¹³

Although many people dream of owning a business, most of them never actually launch a company. Those who do take the entrepreneurial plunge, however, will experience the thrill of creating something grand from nothing; they will also discover the challenges and the difficulties of building a business “from scratch.” Whatever their reasons for choosing entrepreneurship, many recognize that true satisfaction comes only from running their own businesses the way they choose.

Researchers have invested a great deal of time and effort over the last decade studying these entrepreneurs and trying to paint a clear picture of the entrepreneurial personality. Not surprisingly, the desire for autonomy is the single most important factor motivating entrepreneurs to start businesses (see Table 1.1). Although these studies have produced several characteristics that entrepreneurs tend to exhibit, none of them has isolated a set of traits required for success. We now turn to a brief summary of the entrepreneurial profile.¹⁴

1. Desire and willingness to take initiative. Entrepreneurs feel a personal responsibility for the outcome of ventures they start. They prefer to be in control of their resources and to use those resources to achieve self-determined goals. They are willing to step forward and build businesses based on their creative ideas.

2. Preference for moderate risk. Entrepreneurs are not wild risk takers but are instead *calculating* risk takers. Unlike “high-rolling, riverboat gamblers,” they rarely gamble. Entrepreneurs often have a different perception of the risk involved in a business situation. The goal may appear to be high—even impossible—from others’ perspective, but entrepreneurs typically have thought through the situation and believe that their goals are reasonable and attainable. Entrepreneurs

2.

Describe the entrepreneurial profile.



Nikolay Moiseev (left) and Ted Southern (right), cofounders of Final Frontier Design.

Source: Final Frontier Design, LLC.

TABLE 1.1 Why Entrepreneurs Start Businesses

Noam Wasserman and Timothy Butler of the Harvard Business School surveyed nearly 2,000 entrepreneurs about their motivations for starting their businesses, analyzed the results by gender and age, and compared them to thousands of nonentrepreneurs. The primary motivator for entrepreneurs is autonomy, but security and a congenial work environment top the list for nonentrepreneurs. Entrepreneurs' source of motivation shifts slightly as they age, more so for women than for men. The following tables summarize the researchers' findings:

Men by Age		
20s	30s	40s+
Autonomy	Autonomy	Autonomy
Power and Influence	Power and Influence	Power and Influence
Managing People	Managing People	Altruism
Financial Gain	Financial Gain	Variety
Women by Age		
20s	30s	40s+
Autonomy	Autonomy	Autonomy
Power and Influence	Power and Influence	Intellectual Challenge
Managing People	Variety	Variety
Altruism	Altruism	Altruism

Source: Adapted from Leigh Buchanan, "The Motivation Matrix," *Inc.*, March 2012, pp. 60–62.

launched many now famous businesses, including Burger King, Microsoft, FedEx, Disney, CNN, MTV, Hewlett Packard, and others, during economic recessions when many people believed their ideas and their timing to be foolhardy.



ENTREPRENEURIAL PROFILE: Nicholas Pelis: Denizen Rum

While working for SKYY Vodka, Nicholas Pelis spotted an opportunity to create a new blend of rum, a product that had been "sanitized" by the mass-production mind-set of large modern distilleries. Pelis and his wife sold their house in San Francisco to return to his native New York and used the proceeds of the sale and \$300,000 raised from family and friends to launch Denizen Rum, a company whose distilled spirits blend the mixability of white rum with the bold, smooth flavors of traditional dark rum from Amsterdam, where rum blending has been a tradition since the 1700s. Introduced in 2011, Denizen Rum quickly won critical acclaim, which allowed the Pelis's young company to sign a national distribution contract with one of the largest wine and spirits distributors in the United States. Although some people criticized Pelis for the risk that he took, his industry experience and market research convinced him that his idea was sound and that his company would be successful.¹⁵

This attitude explains why so many successful entrepreneurs failed many times before finally achieving their dreams. For instance, Milton Hershey, founder of one of the world's largest and most successful chocolate makers, started four candy businesses, all of which failed, before he launched the chocolate business that would make him famous. The director of an entrepreneurship center says that entrepreneurs "are not crazy, wild-eyed risk takers. Successful entrepreneurs understand the risks [of starting a business] and figure out how to manage them."¹⁶ Good entrepreneurs become risk *reducers*, and one of the best ways to minimize the risk in any entrepreneurial venture is to conduct a feasibility study and create a sound business plan, which is the topic of Chapter 8.

3. Confidence in their ability to succeed. Entrepreneurs typically have an abundance of confidence in their ability to succeed, and they tend to be optimistic about their chances for business success. Entrepreneurs face many barriers when starting and running their companies, and a healthy dose of optimism can be an important component in their ultimate success. "Entrepreneurs believe they can do anything," says one researcher.¹⁷

4. Self-reliance. Entrepreneurs do not shy away from the responsibility for making their businesses succeed. Perhaps that is why many entrepreneurs persist in building businesses even when others ridicule their ideas as follies. Against the advice of his father, a fifth-generation brewmaster, entrepreneur Jim Koch left his high-paying job as a management consultant to start

Boston Beer Company from his kitchen using his family's beer recipe. Koch recalls thinking, "I'm on this path, and it doesn't lead anywhere I want to go." He made the decision to launch his business to "own my life and make decisions that are not the result of other people's plans or expectations." Today, Boston Beer Company sells 32 types of beer, has 800 employees, and generates sales of \$371 million.¹⁸

5. Perseverance. Even when things don't work out as they planned, entrepreneurs don't give up. They simply keep trying. Real entrepreneurs follow the advice contained in the Japanese proverb, "Fall seven times; stand up eight."



ENTREPRENEURIAL PROFILE: Gail Borden: Borden Inc. Entrepreneur Gail Borden (1801–1874) was a prolific inventor, but most of his inventions, including the terraqueous wagon (a type of prairie schooner that could travel on land or water) and a meat biscuit (a mixture of dehydrated meat and flour that would last for months), never achieved commercial success. After witnessing a small child die from contaminated milk, Borden set out to devise a method for condensing milk to make it safer for human consumption in the days before refrigeration. For two years he tried a variety of methods, but every one of them failed. Finally, Borden developed a successful vacuum condensation process, won a patent for it, and built a company around the product. It failed, but Borden persevered. He launched another condensed milk business, this time with a stronger capital base, and it succeeded, eventually becoming Borden Inc., a multi-billion-dollar conglomerate that still makes condensed milk using the process Borden developed 150 years ago. When he died, Borden was buried beneath a tombstone that reads, "I tried and failed. I tried again and succeeded."¹⁹

6. Desire for immediate feedback. Entrepreneurs like to know how they are doing and are constantly looking for reinforcement. Tricia Fox, founder of Fox Day Schools, Inc., claims, "I like being independent and successful. Nothing gives you feedback like your own business."²⁰

7. High level of energy. Entrepreneurs are more energetic than the average person. That energy may be a critical factor given the incredible effort required to launch a start-up company. Long hours—often 60 to 80 hours a week—and hard work are the rule rather than the exception. Building a successful business requires a great deal of stamina and dedication. "Entrepreneurs have zero sense of balance," says serial entrepreneur Jeff Stibel, CEO of Dun & Bradstreet Credibility Corporation. "We're all in all the time. It doesn't matter if it's day or night, weekday or weekend. Each of us focuses on our vision with a single-minded passion. We'd probably work in our sleep if we could."²¹

8. Competitiveness. Entrepreneurs tend to exhibit competitive behavior, often early in life. They enjoy competitive games and sports and always want to keep score.

9. Future orientation. Entrepreneurs tend to dream big and then formulate plans to transform those dreams into reality. They have a well-defined sense of searching for opportunities. They look ahead and are less concerned with what they accomplished yesterday than what they can do tomorrow. Ever vigilant for new business opportunities, entrepreneurs *observe* the same events other people do, but they *see* something different. "Entrepreneurial brains are full-time pattern recognizers," says Steve Blank, professor of entrepreneurship at Stanford University.²²

Taking this trait to the extreme are **serial entrepreneurs**, those who create multiple companies, often running more than one business simultaneously. These entrepreneurs take multitasking to the extreme. Serial entrepreneurs get a charge from taking an idea, transforming it into a business, and repeating the process.



ENTREPRENEURIAL PROFILE: Paul Hurley: ideeli At age 12, Paul Hurley purchased the equipment to start a lawn care business with the profits he earned investing in small oil company stocks. (He came up with the investment strategy after reading his father's copies of *Forbes*.) Hurley's first hire was a kid who had a driver's license because he was too young to drive the company truck. While attending Yale University, Hurley started a series of companies, learning the fundamentals of developing a workable business model, importing, mastering direct mail, and other business skills. After college, he and his brother started Aveo, a communications software company that attracted investments from venture capital firms before folding. "I was completely wiped out," he recalls. From 2001 to 2006, the serial entrepreneur launched seven businesses in quick succession before devoting his full energy to ideeli, a shopping Web site that runs weekly flash sales that feature thousands of clothing, household, and accessory items from brand-name companies at discounts of up to 80 percent. "We put up a new store every day," says Hurley. The site, with more than 4.5 million members, has more than 1,000 suppliers and has raised \$70 million in capital from top venture

capital companies. Just three years after its launch, ideeli's annual sales reached nearly \$78 million, but Hurley's vision is much grander. "We're going to build something big and have a meaningful impact," he says.²³

10. Skill at organizing. Building a company "from scratch" is much like piecing together a giant jigsaw puzzle. Entrepreneurs know how to put the right people and resources together to accomplish a task. Effectively combining talent and resources enables entrepreneurs to bring their visions to reality.

11. Value of achievement over money. One of the most common misconceptions about entrepreneurs is that they are driven wholly by the desire to make money. To the contrary, *achievement* seems to be one of the primary motivating forces behind entrepreneurs; money is simply a way of "keeping score" of accomplishments—a *symbol* of achievement. "Money is not the driving motive of most entrepreneurs," says Nick Grouf, founder of a high-tech company. "It's just a very nice by-product of the process."²⁴

Other characteristics entrepreneurs exhibit include the following:

- **High degree of commitment.** Launching a company successfully requires total commitment from the entrepreneur. Business founders often immerse themselves completely in their businesses. "The commitment you have to make is tremendous; entrepreneurs usually put everything on the line," says one expert.²⁵ That commitment helps overcome business-threatening mistakes, obstacles, and pessimism from naysayers, however. Entrepreneurs' commitment to their ideas and the businesses those ideas spawn determine how successful their companies ultimately become.
- **Tolerance for ambiguity.** Entrepreneurs tend to have a high tolerance for ambiguous, ever-changing situations—the environment in which they most often operate. This ability to handle uncertainty is critical because these business builders constantly make decisions using new, sometimes conflicting information gleaned from a variety of unfamiliar sources.
- **Flexibility.** One hallmark of true entrepreneurs is their ability to adapt to the changing demands of their customers and their businesses. In this rapidly changing world economy, rigidity often leads to failure. As society, its people, and their tastes change, entrepreneurs also must be willing to adapt their businesses to meet those changes. Successful entrepreneurs are willing to allow their business models to evolve as market conditions warrant.
- **Tenacity.** Obstacles, obstructions, and defeat typically do not dissuade entrepreneurs from doggedly pursuing their visions. Successful entrepreneurs have the willpower to conquer the barriers that stand in the way of their success. "[Entrepreneurship] is about staying focused on the summit," explains Jim Koch, founder of Boston Beer. "No one climbs a mountain to get to the middle. You don't focus on the difficulties. You take it one step at a time, knowing that you're going to get to the top."²⁶

What conclusion can we draw from the volumes of research conducted on the entrepreneurial personality? Entrepreneurs are not of one mold; no one set of characteristics can predict who will become entrepreneurs and whether they will succeed. Indeed, *diversity* seems to be a central characteristic of entrepreneurs. As you can see from the examples in this chapter, *anyone*—regardless of age, race, gender, color, national origin, or any other characteristic—can become an entrepreneur. There are no limitations on this form of economic expression, and Fabian Ruiz is living proof.



Catherine Rohr, founder of Defy Ventures.

Source: Christian Science Monitor/Getty Images.



ENTREPRENEURIAL PROFILE: Fabian Ruiz: Infor-Nation After serving a 21-year prison term for killing the man who shot his brother, Ruiz, 37, enrolled in Defy Ventures, a nonprofit organization founded by former Wall Street executive Catherine Rohr that teaches the tools of entrepreneurship to former inmates. "The purpose of Defy is to change the way these men think about themselves and their lives," says Rohr. Participants take a yearlong course of instruction in both business and life skills and work with mentors from colleges, churches, and the business community. They compete in a business plan competition in which the winners share \$100,000 in seed funding and earn a spot in Defy Venture's business incubator. Ruiz is in Defy Venture's first class, and when he graduates, he will start Infor-Nation, a company that will sell printouts of Web pages to inmates in the New York prison system, who are blocked from using the Internet. "This company is helping me fulfill a lot of expectations," says Ruiz. "Things I expected for myself and things my family expected from me."²⁷

Entrepreneurship is not a genetic trait; it is a skill that is learned. The editors of *Inc.* magazine claim, “Entrepreneurship is more mundane than it’s sometimes portrayed. . . . You don’t need to be a person of mythical proportions to be very, very successful in building a company.”²⁸ As you read this book, we hope that you will pay attention to the numerous small business examples and will notice not only the creativity and dedication of the entrepreneurs behind them but also the diversity of those entrepreneurs.



Entrepreneurship in Action

Space: The Next Entrepreneurial Frontier?

Entrepreneur-turned-venture-capitalist Guy Kawasaki says that entrepreneurs are willing to ask the fundamental question, “Wouldn’t it be neat if . . . ?” Steve Jobs wondered, “Wouldn’t it be neat if people could take their favorite music with them wherever they go?” and the result was the best-selling iPod. Recently, several serial entrepreneurs asked, “Wouldn’t it be neat if people could ride into space?” and have launched commercial “spaceline” businesses to take customers into the final frontier.

In 2011, the National Aeronautic and Space Administration (NASA) completed its final manned space flight when the space shuttle *Atlantis* touched down, ending the 135th space shuttle flight and marking the end of a program that began in 1981, when the launch of the shuttle *Columbia* began a new era in space travel. The end of NASA’s program has created an opportunity for entrepreneurs who are interested in exploring the business potential of space much like the entrepreneurs who capitalized on the new field of aviation in the 1920s. Although NASA is planning no space flights in the immediate future, the agency is helping private companies develop spacecraft and space flight capability through its Commercial Crew Development program, which so far has invested \$320 million in four companies, three of which are entrepreneurial ventures. “We’re at the dawn of a new era of space exploration, one where there’s a much bigger role for commercial companies,” says Elon Musk, founder of SpaceX. Musk, a serial entrepreneur and cofounder of PayPal, which he sold to eBay for \$1.5 billion in 2002. Musk used \$100 million of the proceeds from the sale to start SpaceX that same year and later invested \$50 million to launch Tesla Motors, a company that makes head-turning, high-performance electric cars. After SpaceX’s first three launches of its Falcon 9 booster rocket ended in failure, the company was on the verge of going out of business. The company’s fourth attempt was successful, however, and its *Dragon* space capsule became the first from a private company to rendezvous 240 miles above the earth with the International Space Station carrying a modest cargo of 162 meal packets, a laptop computer, clothing, and 15 student experiments. The successful flight resulted in a \$1.6 billion contract for SpaceX, which is based in Hawthorne, California, from NASA, under which it will fly 12 cargo missions to the space station. Musk also intends for SpaceX to be one of the companies that NASA selects to take astronauts back to the space station. SpaceX currently launches its flights from NASA’s Cape Canaveral center but plans to build its own launch pad somewhere along the Gulf Coast.

Another serial entrepreneur, Richard Branson, founder of Virgin Galactic, which is part of Branson’s Virgin Group, a

collection of companies in industries that range from health care and air travel to book publishing and wine, has developed a vehicle, *SpaceShipTwo*, that will carry passengers into suborbital space 70 miles above the earth, where they will experience weightlessness and breathtaking views. After being launched from a mother ship called *LauncherOne*, the two-pilot rocket plane will take six passengers into space but will not orbit the earth. Purchasing a seat on a *SpaceShipTwo* flight costs \$200,000, and already more than 500 space tourists from 40 countries have paid deposits of more than \$60 million to reserve seats on upcoming flights. “We want to enable people all over the world to experience what only about 500 people have seen: Earth from space and the surrounding universe,” says Virgin Galactic CEO George Whitesides.

Another start-up company with several high-profile investors has its eyes on space but with a different twist than SpaceX and Virgin Galactic. The founders of Planetary Resources Inc. are developing a series of low-cost unmanned spacecraft that are designed to prospect and mine valuable minerals on near-Earth asteroids (NEAs). Eric Anderson and Peter Diamandis, the entrepreneurs behind Planetary Resources, say that of the 10,000 known NEAs, more than 1,500 are as easy to reach as the moon. Diamandis says that a typical asteroid that is 265 feet in diameter could contain \$100 billion worth of metals and provide enough energy-generating material to power every space shuttle that has ever traveled into space. The solar system is “full of resources that we could bring back to humanity,” he says. In addition, studying the composition of asteroids could help humans develop methods for preventing them from colliding with earth, an event that could threaten the survival of the human race. Anderson estimates that sending six spacecraft into space to identify the asteroids that offer the greatest potential for mining will cost \$25 million to \$30 million. Hitching a ride on other company’s rockets could lower that cost significantly, which is the reason that the company has entered into a deal with Virgin Galactic to use *LauncherOne* to send Planetary Resources’ *Arkyd* spacecraft into space to explore and eventually mine asteroids.

Investors in Planetary Resources, which currently has more than 30 employees with plans to expand to 100 people who will “devote their lives” to the project, include Google cofounder Larry Page; Ross Perot Jr., chairman of the Perot Group; movie director James Cameron; Chris Lewicki, former Mars mission manager at NASA; and others. “We’re trying to do something so audacious, and we might fail,” acknowledges Anderson. “But we believe that attempting this and moving the needle in space

(continued)

Entrepreneurship in Action *(continued)*

is worth it.” The company says its ultimate goal is to “Planetary Resources’ plan to mine Near-Earth Asteroids for raw materials, ranging from water to precious metals, which will deliver multiple benefits to humanity and grow to be valued at tens of billions of dollars annually.”

1. Assume that you are one of the wealthy potential investors whom the founders of the companies profiled here approached for start-up capital. How would you have responded? What questions would you have asked them?
2. What do you predict for the future of the businesses described here?
3. “If no one is calling you crazy, you’re probably not thinking big enough,” says entrepreneur Linda Rottenberg. What does she mean? Do you agree?

Sources: Based on Emma Haak, “Space, the Private Frontier,” *Fast Company*, February 2012, p. 15; Andrew Shafer, “Up, Up, and Away,” *Inc.*, July/August 2011, pp. 34–35; Andy Pasztor, “Private Space Run Makes History,” *Wall Street Journal*, May 26–27, 2012, pp. A1–A2; George Abbey, “A New Generation of Space Entrepreneurs,” *Chron.com*, June 2012, <http://blog.chron.com/bakerblog/2012/06/a-new-generation-of-space-entrepreneurs>; Christian Cotroneo, “Virgin Galactic Taking Reservations, Calgary Teen Poised to Be Youngest in Space,” *Huffington Post*, August 26, 2011, www.huffingtonpost.ca/2011/06/26/virgin-galactic-reservations-calgary-teen_n_884735.html; Kenneth Chang, “Big Day for a Space Entrepreneur Promising More,” *New York Times*, May 22, 2012, www.nytimes.com/2012/05/23/science/space/spacexs-private-cargo-rocket-heads-to-space-station.html; Amir Efrati, “Asteroid Venture Is About Politics, Not Just Mining,” *Wall Street Journal*, April 24, 2012, pp. B1–B2; Amir Efrati, “Asteroid Mining Strategy Is Outlined by a Start-Up,” *Wall Street Journal*, April 25, 2012, p. B3; “Planetary Resources Inc. Announces Agreement with Virgin Galactic for Payload Services,” *Planetary Resources*, July 11, 2012, www.planetaryresources.com/2012/07/planetary-resources-inc-announces-contract-with-virgin-galactic-for-payload-services.

3.

Explain how entrepreneurs spot business opportunities.

How to Spot Entrepreneurial Opportunities

One of the tenets of entrepreneurship is the ability to create new and useful ideas that solve the problems and challenges people face every day. “Entrepreneurs innovate,” said management legend Peter Drucker. “Innovation is the special instrument of entrepreneurship.”²⁹ Entrepreneurs achieve success by creating value in the marketplace when they combine resources in new and different ways to gain a competitive edge over rivals. Entrepreneurs can create value in a number of ways. Indeed, finding new ways of satisfying customers’ needs, inventing new products and services, putting together existing ideas in new and different ways, and creating new twists on existing products and services are hallmarks of the entrepreneur. At first glance, some entrepreneurs’ ideas seem outlandish, but “illogical ideas are how society achieves progress,” observes Steve Blank, professor of entrepreneurship at Stanford.³⁰

What is the entrepreneurial “secret” for creating value in the marketplace? In reality, the “secret” is no secret at all: it is applying creativity and innovation to solve problems and to exploit opportunities that people face every day. **Creativity** is the ability to develop new ideas and to discover new ways of looking at problems and opportunities. **Innovation** is the ability to *apply* creative solutions to those problems and opportunities to enhance or to enrich people’s lives. Harvard’s Ted Levitt says that creativity is *thinking* new things and that innovation is *doing* new things. In short, entrepreneurs succeed by *thinking and doing* new things or old things in new ways. Simply having a great new idea is not enough; turning the idea into a tangible product, service, or business venture is the essential next step.

Entrepreneurs’ ability to build viable businesses around their ideas has transformed the world. From King Gillette’s invention of the safety razor (Gillette) and Mary Kay Ash’s use of a motivated team of consultants to sell her cosmetics (Mary Kay Cosmetics) to Steve Jobs and Steve Wozniak building the first personal computer in a California garage (Apple) and Fred Smith’s concept for delivering packages overnight (FedEx), entrepreneurs have made the world a better place to live. How do entrepreneurs spot opportunities? Although there is no single process, the following techniques will help you discover business opportunities in the same way these successful entrepreneurs did.

Monitor Trends and Exploit Them Early On

Astute entrepreneurs watch both national and local trends that are emerging and then build businesses that align with those trends. Detecting a trend early on and launching a business to capitalize on it enables an entrepreneur to gain a competitive advantage over rivals.



ENTREPRENEURIAL PROFILE: Kian Saneii: Independa Kian Saneii watched his parents, both in their 70s, care for his grandmother, who was in her 90s. Frequent telephone calls to check on her and to remind her to take her medications were part of their daily routine. Saneii realized that his family was facing an issue that was becoming more prevalent in the United States. His

research confirmed that the number of U.S. citizens who are 65 or older will more than double from 40 million to 89 million by 2050. Saneii decided to tap into this trend and invested a year of research before launching Independa, a telecommunications platform that uses telephones, computers, and tablets to deliver reminders to elderly people about taking medications and going to medical appointments. Independa's "aging in place" service also allows people who know nothing about technology to use a television or touch-screen device to video chat or use Facebook, reducing feelings of isolation and depression. It offers games and puzzles for entertainment and mental engagement and a calendar with reminders of family celebrations. Independa also offers a service that uses wireless sensors to monitor a person's vital signs and transmit them via the Internet at regular intervals. Saneii recently acquired \$2.35 million in financing from venture capital firms.³¹

Travel—and Be Inspired

One of the benefits of traveling is the exposure to new ideas. When entrepreneurs travel, they take the time to observe and to be inspired by what they see, always on the lookout for new ideas they can turn into businesses.



ENTREPRENEURIAL PROFILE: Eileen Fisher: Eileen Fisher Legendary fashion designer Eileen Fisher never really thought about becoming a fashion designer even though she learned to sew as a young girl and made her own prom dress. After graduating from college, Fisher worked for a New York City graphic designer, giving her the opportunity to travel to Japan, where she was captivated by the beautiful fabrics and simple styles, such as cropped pants and kimonos. At the time, Fisher recalls, "I hated shopping for clothes because I couldn't find what I wanted." She believed that women's clothes were too complicated and decided to "make simple clothes that would last and that would transcend fashions." In 1984, recalling the simple styles she had seen on her travels in Japan, Fisher designed four garments, found a seamstress to make them, and took them to a boutique fashion show in New York City, where she sold small orders to eight stores. The next year, Fisher expanded her line and took \$40,000 in orders at the same show. Six years later, she opened the first Eileen Fisher store on Madison Avenue in New York City. Today, the entrepreneur, who is still known for her simple mix-and-match collections, has 57 stores in the United States, Canada, and Great Britain and a company that generates more than \$300 million in annual sales.³²

Take a Different Approach to an Existing Market

Another way to spot opportunities is to ask whether there is another way to reach an existing market with a unique product, service, or marketing strategy. Entrepreneurs are famous for finding new, creative approaches to existing markets and turning them into business opportunities.



ENTREPRENEURIAL PROFILE: Joshua Opperman: I Do Now I Don't After Joshua Opperman and his fiancé broke up in 2006, he attempted to get a refund on the diamond ring he had purchased, but the jewelry store would issue only a store credit, and other jewelers and pawn shops offered him just 28 percent of the original \$10,000 purchase price. The painful experience prompted him to start an e-commerce business, cleverly named I Do Now I Don't, that provides a secure Web site on which people can sell slightly used engagement rings. A seller who lists a ring on the site negotiates a price with a buyer, who sends payment to I Do Now I Don't to hold in escrow. The seller sends the ring to I Do Now I Don't, where it is appraised before the company completes the transaction by sending it to the buyer. Opperman's company collects a 15 percent commission for its services. In response to customers' requests, I Do Now I Don't also buys some rings outright from customers and resells them to dealers. Already the company's annual sales are \$3 million and are growing fast.³³

Put a New Twist on an Old Idea

Sometimes entrepreneurs find opportunities by taking an old idea and giving it a unique twist. The result can lead to a profitable business venture.



ENTREPRENEURIAL PROFILE: Jason Brown and David Waxman: Vitaband While jogging one day, Jason Brown was nearly hit by a car, and the near miss gave him the idea for a rubber identification wristband containing a chip that would allow emergency responders to access the wearer's medical history in case of an accident. Brown told his best friend, David Waxman, about his idea, and the two launched Vitaband to bring the product to market. As they built their business, Brown and Waxman added a prepaid debit chip to Vitaband so that runners could make purchases simply by waving the band near a wireless payment reader without having to carry a wallet, a credit

card, or cash. Brown and Waxman invested \$50,000 of their own money and raised an additional \$750,000 from family members, friends, and, most recently, angel investors to develop prototypes and market the Vitaband. The next challenge is marketing the Vitaband to other customers, including parents who want a safety device for their children and children who want another layer of security for their aging parents.³⁴

Look for Creative Ways to Use Existing Resources

Another way entrepreneurs uncover business opportunities is to find creative ways to use existing resources. This requires them to cast aside logic and traditional thinking.



ENTREPRENEURIAL PROFILE: Ed Munn: Dig This While using heavy equipment to clear land, build a pond, and dig the foundation for the house he was building for him and his wife in Steamboat Springs, Colorado, contractor Ed Munn thought about how much fun he had operating the equipment and how other people would enjoy the experience as well. Munn used his inventory of equipment to launch Dig This, a business that transforms almost anyone into a heavy equipment operator for a day. Three years later, Munn moved his business to Las Vegas, Nevada, where a real estate collapse had freed up many pieces of heavy equipment and customers would have plenty of room to dig in the dirt like kids but with adult-size toys. For as little as \$250, customers can experience the thrill of moving dirt, digging trenches, and playing “excavator basketball” under the watchful eye of experienced instructors.³⁵

Realize That Others Have the Same Problem You Do

Another way entrepreneurs spot business opportunities is by recognizing the “pain points” they encounter from flaws in existing products or services and asking whether other people face the same problems. Providing a product or service that solves those problems offers the potential for a promising business.



ENTREPRENEURIAL PROFILE: Sanjay Kothari and Vinay Pulim: MileWise Like most frequent fliers, Sanjay Kothari experienced difficulty trying to redeem the miles he accumulated on various airlines. Doing so usually required many hours of searching for available flights, poring over rules and restrictions, and making numerous telephone calls. Kothari discovered that many of the 90 million frequent fliers in the United States never use the airline miles they accumulate because the process of redeeming them is so onerous. Spotting an opportunity, Kothari worked with fellow entrepreneur Vinay Pulim to launch MileWise, a specialized search engine that allows travelers to find flights that they can purchase with airline miles, hotel or credit card points, or cash. The Web site also recommends the best way to pay for a trip based on a user’s reward program and travel preferences. “It usually takes people several hours to figure out whether to pay for travel with cash or rewards,” says Kothari. “We’re trying to help them do that in under 30 seconds.” Kothari and Pulim raised \$1.5 million in start-up financing for MileWise from angel investors and venture capital firms and within one month of the site’s launch had attracted 12,000 users.³⁶

Take Time to Play

Children are so creative because they play and have not yet been subjected to all of the “rules” about how things should work that adults have. When it comes to creativity, entrepreneurs can take a lesson from playful children. Play can be a source of business ideas.



ENTREPRENEURIAL PROFILE: Doug Stienstra: Flash Pals While he was a student at the University of Iowa, Doug Stienstra’s girlfriend wanted a “cute” flash drive. After scouring the Internet and retail stores, Stienstra could not find one, so he decided to make one for her. He bought an animal-shaped finger puppet from a toy store and glued it to a standard flash drive. His girlfriend loved the gift, and “her friends started asking me to make one for them,” says Stienstra. “I knew I was on to something. I tested the market, and there was clearly a demand, so I kept at it.” Stienstra worked with the Bedell Entrepreneurship Learning Laboratory at the university and launched a business, Flash Pals, that sells the playful flash drives for \$25 to \$30 and donates a portion of each sale to wildlife charities.³⁷

Notice What Is Missing

Sometimes entrepreneurs spot viable business opportunities by noticing what is *missing*—the “white space” in a market. “Realize that when people say, ‘You’re starting *what?*’ that you’re on

to something,” says one writer.³⁸ The first step is to determine whether a market for the missing product or service actually exists (perhaps the reason it does not exist is that there is no market potential), which is one of the objectives of a feasibility analysis.



ENTREPRENEURIAL PROFILE: Fred Carl: Viking Range Corporation In 1980, while designing the kitchen for their new house, Fred Carl’s wife, Margaret, said that she wanted a heavy-duty gas range like the one her mother had. Carl searched but soon discovered that no company made commercial-grade ovens for home use, so he decided to build one himself. Eventually, he says, “Because no one was doing it, I thought, ‘This is a business.’” Carl contacted every oven manufacturer in the country, and it took two years for him to convince one company to build the oven he had designed. In 1984, he formed a company, Viking Range Corporation, in Greenwood, Mississippi, using his own money, credit cards, and a \$325,000 bank loan, and today the company generates annual sales of more than \$300 million from a full line of quality kitchen appliances.³⁹

No matter which methods they use to detect business opportunities, true entrepreneurs follow up their ideas with action, building companies to capitalize on their ideas.

The Benefits of Owning a Small Business

Surveys show that owners of small businesses believe they work harder, earn more money, and are happier than if they worked for a large company. Entrepreneurs enjoy many benefits of owning a small business, including the following.

4.

Describe the benefits of owning a small business.

Opportunity to Gain Control over Your Own Destiny

Entrepreneurs cite controlling their own destinies as one of the benefits of owning their own businesses. Owning a business provides entrepreneurs the independence and the opportunity to achieve what is important to them. Entrepreneurs want to “call the shots” in their lives, and they use their businesses to bring this desire to life. Numerous studies of entrepreneurs in several countries report that the primary incentive for starting their businesses is “being my own boss.” Entrepreneurs reap the intrinsic rewards of knowing they are the driving forces behind their businesses. “When you’re in the driver’s seat, you are making decisions on how to steer your company into the future,” explains Kasey Gahler, who left his corporate job to start his own financial services company, Gahler Financial.⁴⁰

Opportunity to Make a Difference

Increasingly, entrepreneurs are starting businesses because they see an opportunity to make a difference in a cause that is important to them. Known as **social entrepreneurs**, these business builders seek to find innovative solutions to some of society’s most pressing and most challenging problems. Their businesses often have a triple bottom line that encompasses economic, social, and environmental objectives. These entrepreneurs see their businesses as mechanisms for achieving social goals that are important to them. Whether it is providing sturdy low-cost housing for families in developing countries, promoting the arts in small communities, or creating a company that educates young people about preserving the earth’s limited resources, entrepreneurs are finding ways to combine their concerns for social issues and their desire to earn good livings. Although they see the importance of building viable, sustainable businesses, social entrepreneurs’ primary goal is to use their companies to make a positive impact on the world. Women are slightly more likely than men to start companies for social rather than economic reasons.⁴¹



ENTREPRENEURIAL PROFILE: Gabrielle Palermo, Bill Walters, Susanna Young and Clay Tyler: G3Box When two professors at Arizona State University challenged their engineering students to develop creative ideas for using the hundreds of used shipping containers that are abandoned at ports around the world, Gabrielle Palermo, Bill Walters, Susanna Young, and Clay Tyler came up with the idea of converting the containers into medical clinics that can be deployed anywhere in the world. They created a company, G3Box (the G3 stands for “generating global good”), that transforms the shipping containers into mobile medical clinics and sells them to nonprofit and nongovernmental organizations. The mobile clinics are outfitted with insulation, ventilation, power (some units are equipped with solar panels), potable water, and other necessities and can be set up as permanent housing for medical care or transported into disaster areas as

temporary clinics. Outfitting a container costs between \$12,000 and \$18,000, depending on the particular setup, but Palermo says that G3Box can modify containers for practically any use, such as classrooms, food distribution units, dental offices, and more. “When I started college, I didn’t really think I was going to be growing a business,” says Palermo, “but doing G3Box as a career or starting other companies that focus on social good is my passion now.”⁴²

Opportunity to Reach Your Full Potential

Too many people find their work boring, unchallenging, and unexciting. But to most entrepreneurs, there is little difference between work and play; the two are synonymous. Roger Levin, founder of Levin Group, the largest dental practice management consulting firm in the world, says, “When I come to work every day, it’s not a job for me. I’m having fun!”⁴³

Entrepreneurs’ businesses become the instrument for self-expression and self-actualization. Owning a business challenges all of an entrepreneur’s skills, abilities, creativity, and determination. The only barriers to success are self-imposed. “It’s more exciting to get a company from zero to \$100 million than to get a billion-dollar company to its next \$100 million,” says Dick Harrington, former CEO of Thomson Reuters and now a principal at Cue Ball, a venture capital firm that invests in promising small companies.⁴⁴ Entrepreneurs’ creativity, determination, and enthusiasm—not limits artificially created by an organization (e.g., the “glass ceiling”)—determine how high they can rise.

Opportunity to Reap Impressive Profits

Although money is *not* the primary force driving most entrepreneurs, the profits their businesses can earn are an important motivating factor in their decisions to launch companies. If accumulating wealth is high on your list of priorities, owning a business is usually the best way to achieve it. Most entrepreneurs never become superrich, but many of them do become quite wealthy. Indeed, nearly 75 percent of those on the *Forbes* list of the 400 richest Americans are first-generation entrepreneurs (and most of the others are part of successful family businesses)!⁴⁵ Self-employed people are four times more likely to become millionaires than those who work for someone else. According to Russ Alan Prince and Lewis Schiff, authors of *The Middle Class Millionaire*, more than 80 percent of middle-class millionaires, those people with a net worth between \$1 million and \$10 million, own their own businesses or are part of professional partnerships. (They also work an average of 70 hours a week.)⁴⁶



ENTREPRENEURIAL PROFILE: Kevin Plank: Under Armour As a special teams captain on the University of Maryland football team, Kevin Plank grew weary of wearing a heavy, sweat-soaked cotton T-shirt under his football pads. He began to research the properties of various fabrics and produced sample shirts made with a polyester-blend base layer that fit as snugly as Spiderman’s suit and were extremely lightweight, durable, and capable of wicking away perspiration so that they stayed dry. He tested early prototypes himself, and, at first, his teammates laughed at him because the fabric resembled lingerie. Before long, however, his teammates were asking for shirts of their own. After graduating, Plank launched a company, Under Armour, from the basement of his grandmother’s townhouse in Washington, D.C., which served as the company’s first office, warehouse, distribution center—and his bedroom. He started Under Armour with \$20,000 of his own money and \$40,000 in credit card debt before landing a \$250,000 loan guaranteed by the U.S. Small Business Administration. Fifteen years later, Plank’s company, which sells a full line of athletic apparel and shoes, generates annual sales of \$1.83 billion. With a personal net worth of \$1.7 billion, Kevin Plank has reaped the financial rewards of entrepreneurship.⁴⁷

Opportunity to Contribute to Society and Be Recognized for Your Efforts

Often, small business owners are among the most respected—and most trusted—members of their communities. A recent survey by the Public Affairs Council reports that 90 percent of Americans have a favorable view of small businesses, far more than those who view large corporations, news media, and the government.⁴⁸ Entrepreneurs enjoy the trust and the recognition they receive from the customers they have served faithfully over the years. A recent Pew Research Center survey reports that small businesses make up the most trusted institution in the United States, ranking ahead of churches and colleges.⁴⁹ Playing a vital role in their local business systems and knowing that the work they do has a significant impact on how smoothly our nation’s economy functions is yet another reward for entrepreneurs.

Opportunity to Do What You Enjoy Doing

A common sentiment among small business owners is that their work *really* isn't work. In fact, a recent survey by Wells Fargo/Gallup Small Business Index reports that 47 percent of business owners say they do not plan to retire from their businesses unless they are forced to because of health reasons.⁵⁰ Most successful entrepreneurs choose to enter their particular business fields because they have an interest in them and enjoy those lines of work. Many of them have made their avocations (hobbies) their vocations (work) and are glad they did! These entrepreneurs are living the advice Harvey McKay offers: "Find a job doing what you love, and you'll never have to work a day in your life."



ENTREPRENEURIAL PROFILE: Jeff Archer and Tom Losee: YOLO Board Jeff Archer was hooked on the sport of stand-up paddling on his first outing when he followed a pod of dolphins and watched them teach a young dolphin how to catch fish. Two weeks later, Archer and business partner Tom Losee, both lifelong aficionados of water sports and fitness, had launched YOLO ("You Only Live Once") Board, a company in Santa Rosa Beach, Florida, that makes a modern version of the stand-up paddle boards invented by the Polynesians centuries ago. YOLO Board manufactures 18 different boards that range in price from \$700 to \$2,000 to accommodate various types of water and paddler preferences. Similar to a surfboard only wider, longer, and more stable, stand-up paddle boards allow users to get exercise, enjoy the beauty of a variety of bodies of water, and experience a sense of calmness. Gliding on the surface of the water, one newcomer to the sport says, "It feels as if we're walking on water." Through YOLO Board, Archer and Losee, whose work wardrobes include board shirts, T-shirts, and flip-flops rather than suits, ties, and wingtips, are able to do what they enjoy and share their passion for the sport with others.⁵¹

The Potential Drawbacks of Entrepreneurship

Although owning a business has many benefits and provides many opportunities, anyone planning to enter the world of entrepreneurship should be aware of its potential drawbacks. "Building a start-up is incredibly hard, stressful, chaotic, and—more often than not—results in failure," says entrepreneur Eric Ries. "So why become an entrepreneur? Three reasons: change the world, make customers' lives better, and create an organization of lasting value. If you want to do only one of these things, there are better options. Only start-ups combine all three."⁵² Let's explore the "dark side" of entrepreneurship.

Uncertainty of Income

Opening and running a business provides no guarantees that an entrepreneur will earn enough money to survive. Even though business owners tend to earn more than wage-and-salary workers, some small businesses barely generate enough revenue to provide the owner-manager with an adequate income. The median income of small business owners (\$72,806) is 82 percent higher than the median income of full-time wage and salary workers (\$40,092), but business owners' income tends to be much more variable.⁵³ In the early days of a start-up, a business often cannot provide an attractive salary for its founder and meet all of its financial obligations, which means that the entrepreneur may have to live on savings for a time. The regularity of income that comes with working for someone else is absent because the owner is always the last one to be paid. A recent survey by Citibank reports that 54 percent of small business owners have gone without a paycheck to help their businesses survive.⁵⁴ The founder of a flavor and fragrances manufacturing operation recalls the time his bank unexpectedly called the company's loans just before Thanksgiving, squeezing both the company's and the family's cash flow. "We had planned a huge Christmas party, but we canceled that," recalls his wife. "And Christmas. And our usual New Year's trip."⁵⁵

Risk of Losing Your Entire Invested Capital

The small business failure rate is relatively high. According to a research by the Bureau of Labor Statistics, 31 percent of new businesses fail within two years, and 51 percent shut down within five years. Within 10 years, 66 percent of new businesses will have folded.⁵⁶ "In the wake of a company failure, the founder knows that he has kicked his family's fortune back to Square One, or past that, to Square Zero, or Minus Three," says Meg Hirshberg, wife of Gary Hirshberg, founder of yogurt maker Stonyfield Farm. "The [failure] of Stonyfield Farm would have meant the loss of our home, our lifestyle, our children's college funds."⁵⁷

5.

Describe the potential drawbacks of owning a small business.

A failed business can be financially and emotionally devastating. Before launching their businesses, entrepreneurs should ask themselves whether they can cope financially and psychologically with the consequences of failure. They should consider the risk-reward tradeoff before putting their financial and mental well-being at risk:

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

Long Hours and Hard Work

The average small business owner works 54 hours per week, compared to the 35 hours per week the typical U.S. employee works.⁵⁸ In many start-ups, 10- to 12-hour days and six- or seven-day workweeks with no paid vacations are the *norm*. A recent survey by Manta Media found that 48 percent of small business owners say that they had no time to take a summer vacation.⁵⁹ “I just took the first vacation in years,” says Greg Selkoe, founder of Karmaloop, a Web site that sells clothing and shoes. “I’ve never taken a vacation in which I don’t work. In one sense, my life is stressful. In another, it’s a vacation because I love what I’m doing. Work is my fun.”⁶⁰

Sleep researcher James Maas of Cornell University estimates that entrepreneurs lose 700 hours of sleep the year in which they launch their companies, which is equivalent to the amount of sleep that a parent loses in the first year of a baby’s life.⁶¹ Dan Croft left a top management job at a large mobile communications company to start Mission Critical Wireless, a small business that helps other businesses select and implement wireless communication systems. Croft’s 25 years of experience in the industry allowed him to make a smooth transition to entrepreneurship, but there were a few surprises. “The highs are much higher, the lows are much lower, and the lack of sleep is much greater,” jokes Croft, referring to the long hours his new role requires.⁶²

Because they often must do everything themselves, owners experience intense, draining workdays. “I’m the owner, manager, secretary, and janitor,” says Cynthia Malcolm, who owns a salon called the Hand Candy Mind and Body Escape in Cheviot, Ohio.⁶³ Many business owners start down the path of entrepreneurship thinking that they will own a business only to discover later that the business owns them!

Lower Quality of Life Until the Business Gets Established

The long hours and hard work needed to launch a company can take their toll on the remainder of an entrepreneur’s life. Business owners often find their roles as husbands and wives or fathers and mothers take a backseat to their roles as company founders. Marriages and friendships are too often casualties of small business ownership. Part of the problem is that entrepreneurs are most likely to launch their businesses between the ages of 25 and 34, just when they start their families.



ENTREPRENEURIAL PROFILE: Peyton Anderson and Affinergy, Inc. Peyton Anderson, owner of Affinergy Inc., a 12-person biotech firm located in Research Triangle Park, North Carolina, struggles to balance the demands of his young company and his family, which includes three children under the age of four. “I do a lot of work from 9 p.m. to midnight,” says Anderson, “and I try to keep Saturday open to do things with the kids.” He also uses flextime during the week to spend more time with his family, but maintaining balance is an ongoing battle, especially when managing a young company. “Even while I’m singing to them in the bathtub, in the back of my mind, I’m grinding on stuff at work,” admits Anderson.⁶⁴

High Levels of Stress

Launching and running a business can be an extremely rewarding experience, but it also can be a highly stressful one. Most entrepreneurs have made significant investments in their companies, left behind the safety and security of a steady paycheck, and mortgaged everything they own to get into business. Failure often means total financial ruin as well as a serious psychological blow, and that creates high levels of stress and anxiety. “Being an entrepreneur takes sheer guts and demands far more than an ‘employee’ mentality,” says Jamie Kreitman, founder of Kreitman Knitworks Ltd., a company specializing in whimsical apparel and footwear.⁶⁵

Complete Responsibility

Owning a business is highly rewarding, but many entrepreneurs find that they must make decisions on issues about which they are not really knowledgeable. When there is no one to ask, pressure can build quickly. The realization that the decisions they make are the cause of success or failure of the business has a devastating effect on some people. Small business owners realize quickly that *they* are the business.

Discouragement

Launching a business requires much dedication, discipline, and tenacity. Along the way to building a successful business, entrepreneurs will run headlong into many obstacles, some of which may appear to be insurmountable. Discouragement and disillusionment can set in, but successful entrepreneurs know that every business encounters rough spots and that perseverance is required to get through them.

Entrepreneurs are not easily dissuaded by the disadvantages of owning a business. In a recent survey by Citibank, 76 percent of small business owners say they would start their businesses again if they knew then what they know now about the challenges they would face.⁶⁶

Why the Boom: The Fuel Feeding the Entrepreneurial Fire

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

Entrepreneurs as Heroes

An intangible but very important factor is the attitude that Americans have toward entrepreneurs. Around the world, the most successful entrepreneurs have hero status and serve as role models for aspiring entrepreneurs. Business founders such as Michael Dell (Dell Computers), Oprah Winfrey (Harpo Studios and Oxygen Media), Richard Branson (Virgin), Robert Johnson (Black Entertainment Television), and Mark Zuckerberg (Facebook) are to entrepreneurship what LeBron James and Peyton Manning are to sports. The media reinforce entrepreneurs' hero status with television shows such as *The Apprentice* with Donald Trump and *Shark Tank and Dragons' Den*, both of which features entrepreneurs who pitch their ideas to a panel of tough business experts who have the capital and the connections to make a budding business successful. Nearly 7.5 million people in 123 countries on six continents participate in nearly 34,000 activities during Global Entrepreneurship Week, a celebration of entrepreneurship that is sponsored by the Kauffman Foundation.⁶⁷

Entrepreneurial Education

People with more education are more likely to start businesses than those with less education, and entrepreneurship, in particular, is an extremely popular course of study among students at all levels. A rapidly growing number of college students see owning a business as an attractive career option, and in addition to signing up for entrepreneurship courses, many of them are launching companies while in school. Today, more than two-thirds of the colleges and universities in the United States (more than 2,300) offer courses in entrepreneurship or small business, up from just 16 in 1970. More than 200,000 students are enrolled in entrepreneurship courses, and many colleges and universities have difficulty meeting the demand for courses in entrepreneurship and small business.⁶⁸

Shift to a Service Economy

The service sector accounts for 86 percent of the jobs (up from 70 percent in the 1950s) and 48 percent of the GDP in the United States.⁶⁹ Because of their relatively low start-up costs, service businesses have been very popular with entrepreneurs. The booming service sector has provided entrepreneurs with many business opportunities, from hotels and health care to computer maintenance and Web-based services.

Technology Advancements

With the help of modern business tools—the Internet, cloud computing, personal computers, tablet computers, smart phones, apps, copiers, color printers, instant messaging, and voice

6.

Explain the forces that are driving the growth of entrepreneurship.

mail—even one person working at home can look like a big business. At one time, the high cost of such technological wizardry made it impossible for small businesses to compete with larger companies that could afford the hardware. Now the cost of sophisticated technology is low enough that even the smallest companies can use a multitude of devices creatively to gain a competitive edge. One recent survey by AT&T reports that 96 percent of small businesses use wireless technology and that 64 percent of owners say that their companies could not survive without it.⁷⁰ With the help of modern technology, entrepreneurs can run their businesses from almost anywhere very effectively and look like any *Fortune* 500 company to their customers and clients.



ENTREPRENEURIAL PROFILE: Drew Houston and Arash Ferdowsi: Dropbox

Drew Houston, just 24 years old and a student at the Massachusetts Institute of Technology, met fellow MIT student, 21-year-old Arash Ferdowsi, and the two began working on a problem that plagued many people: how to store all of your files in one place so that they are accessible from anywhere. Their solution was to create a virtual storage cabinet in the cloud that enables users to save and access documents, spreadsheets, photographs, music, videos, and anything else from any computer, tablet, or smart phone. (Houston actually began writing the code for the software in a Boston train station.) In 2007, Houston and Ferdowsi launched Dropbox Inc. and moved to San Francisco, where they raised \$7.2 million in equity financing from top-tier venture capital firms. In 2011, the duo attracted another \$250 million in capital to fuel Dropbox's growth. Today, 100 million users save about one billion files on Dropbox each day, generating more than \$500 million in annual revenue for the company.⁷¹

Outsourcing

Entrepreneurs have discovered that they do not have to do everything themselves. Because of advances in technology, entrepreneurs can outsource many of the operations of their companies and retain only those in which they have a competitive advantage. Doing so enhances their flexibility and adaptability to ever-changing market and competitive conditions.



ENTREPRENEURIAL PROFILE: Evan Solida: Cerevellum

Evan Solida left his job as a designer for a kayak manufacturer in Easley, South Carolina, to launch Cerevellum, a company that makes a unique digital rearview mirror for bicyclists. An avid cyclist, Solida came up with the idea a decade earlier as part of a college class project but didn't bring the product to life until he was struck by a car while bicycling. After receiving funding from the Upstate Carolina Angel Network and Michelin Development Corporation, Solida was able to bring to market the Hindsight 35, which attaches a small camera at the rear of the bicycle to a handlebar-mounted screen that also serves as a cyclometer and a "black box" in case of an accident. Solida outsources production of the device to a specialty manufacturer in China, and a company in Texas handles distribution for Cerevellum. Solida's outsourcing strategy allowed him to minimize his start-up costs and enables him to focus on the tasks that he performs best.

Independent Lifestyle

Entrepreneurship fits the way Americans want to live—independent and self-sustaining. Increasingly, entrepreneurs are starting businesses for lifestyle reasons. They want the freedom to choose where they live, the hours they work, and what they do. Although financial security remains an important goal for most entrepreneurs, lifestyle issues such as more time with family and friends, more leisure time, and more control over work-related stress also are important. To these "lifestyle entrepreneurs," launching businesses that give them the flexibility to work the hours they prefer and live where they want to are far more important than money.

E-Commerce, the Internet, and Mobile Computing

The proliferation of the Internet and mobile computing has spawned thousands of entrepreneurial ventures since the beginning in 1993. Currently, more than 167 million customers in the United States alone shop online.⁷² As online shopping becomes easier, more engaging, and more secure for shoppers, e-commerce will continue to grow. eMarketer predicts that online retail sales in the United States will increase from \$224.2 billion in 2012 to \$361.9 billion in 2016.⁷³ Many entrepreneurs see the power of the Internet and mobile computing and are putting them to use, but some small businesses have been slow to adopt the technology. A recent study by Web.com reports that only 60 percent of small businesses have Web sites, and only 26 percent of those Web sites are mobile friendly. (Just 14 percent of small businesses have a stand-alone Web site designed specifically for mobile devices.)⁷⁴



ENTREPRENEURIAL PROFILE: Boris Saragaglia: Spartoo In Europe, e-commerce sales are growing nearly as fast as in the United States. In 2006, 23-year-old French entrepreneur Boris Saragaglia decided to capitalize on that opportunity and launched Spartoo.com, an e-commerce site that sells shoes. Inspired by the success of online retailer Zappos, Saragaglia made customer service the focal point of Spartoo's strategy, offering customers free delivery and returns on 25,000 shoe styles from 500 brands. His strategy has been successful. With more than a dozen local language versions of its Web site, Spartoo sells more than 1.5 million pairs of shoes annually and generates revenue of \$195 million, mostly from customers across Europe.⁷⁵

International Opportunities

No longer are small businesses limited to pursuing customers within their own borders. The dramatic shift to a global economy has opened the door to tremendous business opportunities for those entrepreneurs willing to reach across the globe. Although the United States is an attractive market for entrepreneurs, approximately 95 percent of the world's population lives outside its borders. With so many opportunities in international markets, even the smallest businesses can sell globally, particularly with the help of the Internet. Jonathan Forgacs, cofounder of Pillow Décor, a Vancouver, Canada-based company that sells more than 1,000 types of decorative pillows online, says that more than 98 percent of sales originate outside of Canada.⁷⁶

Although only 280,000 companies in the United States—less than 1 percent of U.S. small businesses—export, companies with fewer than 20 employees account for 72 percent of all exporters.⁷⁷ Small and medium-size companies generate 33 percent of the nation's export sales.⁷⁸ The barriers to international trade that small business owners encounter most frequently are high shipping costs, language and cultural differences, and difficulty finding potential customers.⁷⁹ Although “going global” can be fraught with many dangers and problems, many entrepreneurs are discovering that selling their products and services in foreign markets is not really as difficult as they originally thought. Patience, diligence, and a management commitment to exporting are essential elements. As business becomes increasingly global in nature, international opportunities for small businesses will continue to grow rapidly.



In the Entrepreneurial Spotlight

Collegiate Entrepreneurs

For growing numbers of students, college is not just a time of learning, partying, and growing into young adulthood; it is fast becoming a place for building a business. Today, more than 2,300 colleges and universities offer courses in entrepreneurship and small business management, and many of them have trouble meeting the demand for these classes. “There’s been a change in higher education,” says William Green, dean of the entrepreneurship program at the University of Miami. “Entrepreneurship has become a mainstream activity.” Greater numbers of students are pursuing careers in entrepreneurship and see their college experience as an opportunity to get an early start not only by studying entrepreneurship but also by putting what they learn into practice. In addition to regular classroom courses, colleges increasingly are building an extra dimension in their entrepreneurship programs, including internships with local businesses, mentoring relationships with other entrepreneurs, networking opportunities with potential investors, and participation in business plan competitions. “Entrepreneurial education is a contact sport,” says Allan R. Cohen, dean of the graduate program at Babson College.

As the following examples prove, many college students expect to apply the entrepreneurial skills they are learning in their classes by starting businesses while they are still in college.

ThinkLite

When Dinesh Wadhvani and Enrico Palmerino were students at Babson College in Wellesley, Massachusetts, they saw an ad for a new technology that produces customized energy-efficient lightbulbs but realized that the \$24-per-bulb price tag would dissuade many potential buyers despite the fact that the bulbs produce energy and maintenance savings of up to 90 percent. They approached several large companies that make the bulbs, negotiated discounts for bulk purchases, and started ThinkLite, a Boston-based company that installs the energy efficient bulbs at no up-front cost in exchange for a fixed percentage of the energy savings their customers’ realize. The young entrepreneurs have signed on many retail clients, a high-rise apartment building in New York City, and a factory. “College is the best time to have a business venture because all of the money that we make we put back into the business to grow it, and it gives us the liquidity to finance more projects,” says Wadhvani.

After graduating, Wadhvani and Palmerino made their college start-up a full-time venture and have expanded ThinkLite into other cities across the United States and in other countries. Looking back, Wadhvani says that his collegiate entrepreneurial education and experience were “priceless” and credits Babson College with encouraging his entrepreneurial spirit. “Babson has educated me

(continued)

In the Entrepreneurial Spotlight (continued)

on the two different ways one could make a living: conforming to a standard, or being a pioneer of innovation,” he says.

Skida

While Corinne Prevot was in high school in East Burke, Vermont, the avid skier found some soft, brightly colored Lycra and fleece fabrics and made ski caps and headbands for herself and the teammates on her cross-country ski team. Soon, other people were asking how they could buy some of the unique hats, and before she knew it, Prevot had started a business making them. To expand her market, she drove to a local sporting goods store in a borrowed car and approached the owner with a boxful of brightly colored caps and headbands. “I have these hats and headbands, and a lot of my friends have been interested in them,” she told the owner. “I think your cold weather cyclists would like them, too.” The owner purchased the box of caps and headbands, giving Prevot her first big sale.

Now attending Middlebury College, Prevot continues to operate her company, Skida, which currently sells its line of hats, headbands, and scarves—all sporting neon polka dots, bright plaids, and happy geisha flowers—in 47 retail stores across the United States and through the Skida Web site. Prevot, who has a double major in anthropology and geography, says that Skida is profitable and generates annual sales of more than \$100,000.

Bump technologies

In an accounting class in the University of Chicago’s MBA program, David Lieb began thinking about an easy way for smart phone users to share contact information with one another. During the first week of classes, “I found myself entering in phone number after phone number and name after name,” he recalls. Lieb, a former employee at Texas Instruments, believed that he could create an easy, automated way for smart phone users to share information. He explained his idea to fellow students Andy Huibers and Jake Mintz, and the trio of entrepreneurs began developing a prototype based on Lieb’s idea. Two weeks later, they had a rudimentary prototype operating on a laptop, and within five months the entrepreneurs launched Bump Technologies, featuring their mobile app that allows smart phone users to share photos and contact information simply by bumping their phones together. “The first day we got 222 downloads, and soon we were getting thousands,” says Lieb. Today, more than 100 million people have downloaded the Bump app. Lieb, Mintz, and Huibers have

raised \$19.9 million in financing, primarily from venture capital firms, and their company now has 26 full-time employees and 11 interns. Looking back, the entrepreneurs say that much of their success originates in two principles that they have relied on since they started their business: (1) creating a strong team of founders whose skill sets complement one another and that is capable of handling the unpredictable tasks of starting a company and (2) regularly testing not only products but also the assumptions on which their business is built.

College can be one of the best places to start a business, but doing so requires discipline, good time management, and a willingness to make mistakes and learn from them. “An entrepreneur’s career may include 30 or 40 ventures,” says Andrew Bachman, who started Tatto Media, a digital advertising company, from his dorm room and sold it a few years later for \$60 million. “Each one should be a stepping stone and a learning experience.”

1. “Entrepreneurship can’t be taught in a regular classroom any more than surfing can,” says one venture capitalist. “To learn it, you have to get your feet wet in the real world.” What do you think?
2. In addition to the normal obstacles of starting a business, what other barriers do collegiate entrepreneurs face?
3. What advantages do collegiate entrepreneurs have when launching a business?
4. What advice would you offer a fellow college student about to start a business?
5. Work with a team of your classmates to develop ideas about what your college or university could do to create a culture that supports entrepreneurship on your campus or in your community.

Sources: Based on LeeAnn Maton, “College Entrepreneurs Part 2: Looking for A’s in Money Making,” *Daily Finance*, June 15, 2012, www.dailyfinance.com/2010/06/15/college-entrepreneurs-part-2-looking-for-as-in-making-money; Lauren Monsen, “Lighting the Way: College Students Help Businesses Go Green,” *IIP Digital*, January 26, 2012, <http://iipdigital.usembassy.gov/st/english/article/2012/01/20120126142229nerual0.3576471.html#axzz1pAhYRzqZ>; David Port, “Get Smarter,” *Entrepreneur*, April 2009, pp. 51–56; Nichole L. Torres, “Launch Pad to Success,” *Entrepreneur*, October 2008, pp. 61–81; Joel Holland, “Breaking Business Models,” *Entrepreneur*, March 2009, p. 102; Patricia B. Gray, “Can Entrepreneurship Be Taught?,” *FSB*, March 2006, pp. 34–51; Susan Adams, Helen Coster, and Elizabeth Woyke, “All-Star Student Entrepreneurs,” *Forbes*, August 22, 2011, pp. 74–79; “About Us,” Skida, www.skidasport.com/pages/about-us; Joel Holland, “It’s a Hit,” *Entrepreneur*, September 2011, p. 98; Andrew Bachman, “3 Golden Rules for College Entrepreneurs,” *Young Entrepreneur Council*, April 30, 2012, <http://theyec.org/3-golden-rules-for-college-entrepreneurs>; Victor W. Hwang, “Can Entrepreneurship Be Taught?,” *Wall Street Journal*, March 19, 2012, p. R4.

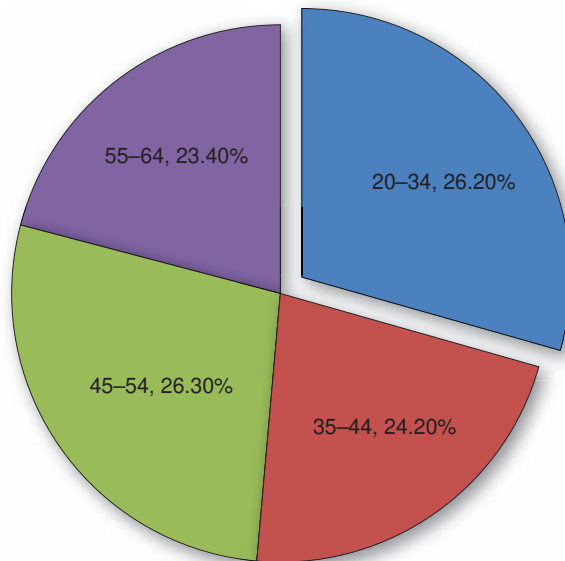
7.
Discuss the role of diversity in small business and entrepreneurship.

The Cultural Diversity of Entrepreneurship

As you have seen, virtually anyone has the potential to become an entrepreneur. The entrepreneurial sector of the United States consists of a rich blend of people of all races, ages, backgrounds, and cultures. It is this cultural diversity that is one of entrepreneurship’s greatest strengths. We turn our attention to those who make up this diverse fabric we call entrepreneurship.

Young Entrepreneurs

Young people are setting the pace in entrepreneurship. Disenchanted with their prospects in corporate America and willing to take a chance to control their own destinies, scores of young

**FIGURE 1.2****New Entrepreneurs by Age Group**

Source: Based on Robert W. Fairlie, *Kauffman Index of Entrepreneurial Activity, 1996–2012*, April 2013, Kauffman Foundation, p. 12.

people are choosing entrepreneurship as their primary career path. Although people 55 and older have demonstrated the greatest increase in entrepreneurial activity over the last 25 years, Generation Y, made up of people born between 1980 and 2000, is one of the most entrepreneurial generations in history (see Figure 1.2).⁸⁰ Research shows that children whose parents are entrepreneurs are two to three times more likely to pursue entrepreneurship as a career than those whose parents are wage earners.⁸¹

There is no age requirement to be a successful entrepreneur.

**ENTREPRENEURIAL PROFILE: Mallory Kievman: Hiccupops**

When 11-year-old Mallory Kievman developed a stubborn case of the hiccups one summer, she tried a variety of home remedies, including swallowing salt water, eating a spoonful of sugar, and sipping pickle juice, but her hiccups persisted. The experience prompted Kievman to develop a cure for hiccups. After two years and testing 100 remedies in her family's kitchen, Kievman developed the Hiccupop, a product that blends the most successful hiccup-fighting remedies she discovered—lollipops, sugar, and apple cider vinegar. She entered her product in the Connecticut Invention Convention, an annual new product competition for kids, and won prizes for innovation and patentability. "Hiccupops solves a very simple, basic need," observes Sanny Briere, a serial entrepreneur who is serving as an adviser to Hiccupops. Explaining the science behind the Hiccupop, Kievman says, "It triggers a set of nerves in your throat and mouth that are responsible for the hiccup reflex arc. It overstimulates those nerves and cancels out the message to hiccup." Kievman currently is working with a team of MBA students from the University of Connecticut to bring her patented hiccup-fighting lollipops to market.⁸²



Mallory Kievman, founder of Hiccupops.

Source: Andrew Douglas Sullivan.

Women Entrepreneurs

Despite years of legislative effort, women still face discrimination in the workforce. However, small business has been a leader in offering women opportunities for economic expression through employment and entrepreneurship. Many women are discovering that the best way to break the "glass ceiling" that prevents them from rising to the top of many organizations is to start their own companies (see Figure 1.3). The freedom that owning their own companies gives them is one reason that entrepreneurship is a popular career choice for women. In fact, women now own almost 30 percent of all businesses in the United States, and many of them are in fields that traditionally have been male dominated.⁸³

**ENTREPRENEURIAL PROFILE: Jessica Alba: The Honest Company**

After film star Jessica Alba became a mother, she "was horrified to find out how many toxic chemicals are in baby products." Inspired by a book about creating a clean home without relying on potentially harmful chemicals that she had read during her first pregnancy, Alba contacted Christopher Gavigan, the book's author, and proposed that they create a business that would provide mothers with the products to implement the strategies featured in the book. "You've given me a handbook, but you



Jessica Alba, cofounder of Honest Company.

Source: © A. Ariani/Corbis.

haven't given me a solution," Alba told Gavigan. "Let's make the solution." Working with serial entrepreneur Brian Lee, Alba and Gavigan launched The Honest Company, a business that sells safe, eco-friendly, affordable products for babies and the home. They started with an eco-friendly disposable diaper because they saw disposable diapers as "the greatest area of opportunity for innovation," says Alba. The Honest Company's diapers, which are 85 percent biodegradable, use a mix of wheat, corn, and wood fluff to achieve 35 percent more absorbency than conventional diapers. The Honest Company has expanded its product line to include detergents, soaps, shampoos, and cleaners; more products are in the planning stage. Sales are growing, but according to Alba, "We're still this scrappy little company where everybody is working long hours and doing everything at once."⁸⁴

Although the businesses women start tend to be smaller than those men start, their impact is anything but small. Women-owned companies in the United States employ 7.7 million workers and generate approximately \$1.3 trillion in revenue.⁸⁵ Women entrepreneurs have even broken through the comic strip barrier. Blondie Bumstead, long a typical suburban housewife married to Dagwood, owns her own catering business with her best friend and neighbor, Tootsie Woody!

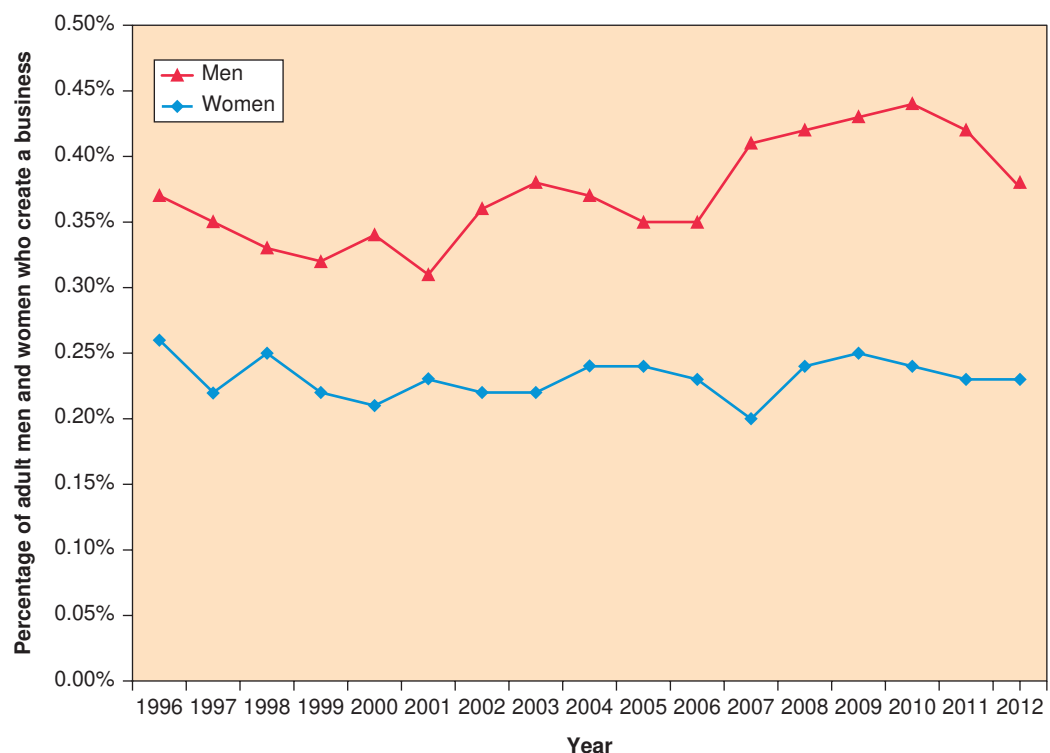
Minority Enterprises

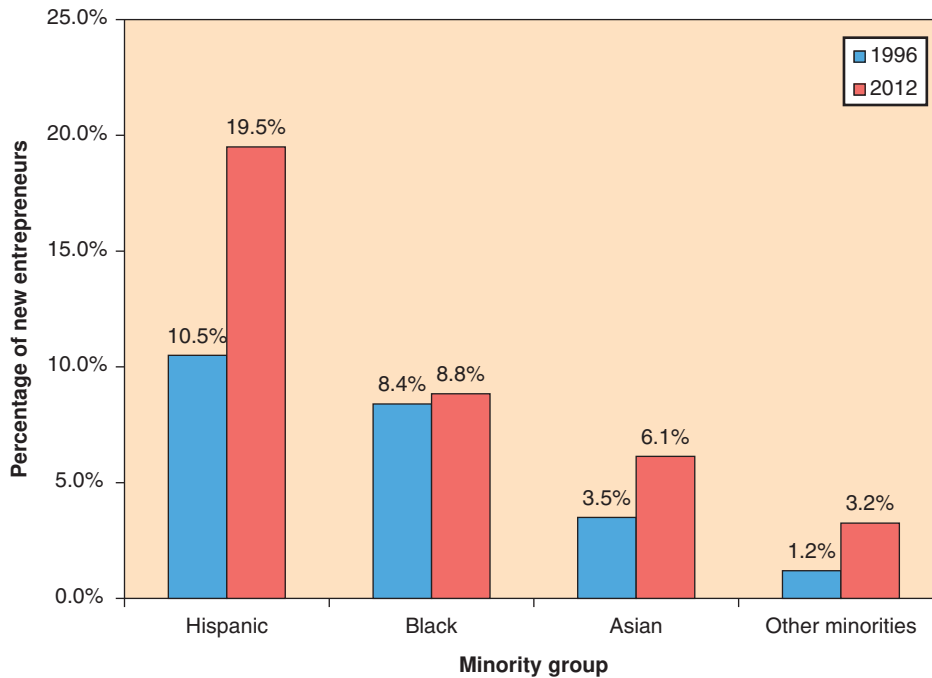
Like women, minorities also are choosing entrepreneurship more often than ever before. Hispanics, African Americans, and Asians are most likely to become entrepreneurs. Hispanics represent the fastest-growing segment of the U.S. population, and Hispanic entrepreneurs represent the largest segment of minority-owned businesses in the United States (see Figure 1.4). More than 2.3 million Hispanic-owned companies employ more than 1.9 million people and generate more than \$345 billion in annual sales.⁸⁶

Minority entrepreneurs see owning their own businesses as an ideal way to battle discrimination, and minority-owned companies have come a long way in the last decade. The most recent Index of Entrepreneurial Activity by the Ewing Marion Kauffman Foundation shows that Hispanics are 38 percent more likely to start a business than whites, and Asians are 7 percent more likely.⁸⁷ Minority entrepreneurs own 22 percent of all businesses in the United States, generate \$1 trillion in annual revenues, and start their businesses for the same reason that most entrepreneurs do: to control their own destinies.⁸⁸ The future is promising for this new generation of minority entrepreneurs who are better educated, have more business experience, have more entrepreneurial role models, and are better prepared for business ownership than their predecessors.

FIGURE 1.3
Entrepreneurial Activity
Index by Gender

Source: Based on Robert W. Fairlie, *Kauffman Index of Entrepreneurial Activity*, 1996–2012, Kauffman Foundation, April 2013, p. 5.



**FIGURE 1.4**

Percentage of New Entrepreneurs by Minority Group 1996 and 2012

Source: Based on Robert W. Fairlie, *Kauffman Index of Entrepreneurial Activity, 1996–2012*, p. 9.



ENTREPRENEURIAL PROFILE: Venus Williams: V*Star Interiors and Jamba Juice

Not only has Venus Williams been a dominant force in the world of professional tennis since she turned pro in 1994, but she also has exercised her entrepreneurial muscles, starting an interior design company, V*Star Interiors, in 2002 and two Jamba Juice franchises in the Washington, D.C., area in 2011 and 2012. V*Star, located in Jupiter, Florida, has done design work for high-profile professional athletes, upscale residential communities, university athletic facilities, and sets for television shows. Williams's affiliation with Jamba Juice, which offers a wide selection of healthy, vegetarian, and vegan menu items, is "a perfect fit" given her interest in inspiring young people to stay active and make good dietary choices.⁸⁹

Immigrant Entrepreneurs

The United States has always been a "melting pot" of diverse cultures, and many immigrants have been lured to this nation by its economic freedom. Unlike the unskilled "huddled masses" of the past, today's immigrants arrive with far more education and experience and a strong desire to succeed. They play an especially important role in technology industries. A study by the Kauffman Foundation reports that immigrant entrepreneurs are responsible for 52 percent of Silicon Valley technology start-ups, including Google, PayPal, and YouTube.⁹⁰

Although immigrants make up 13 percent of the U.S. population, immigrant entrepreneurs own 18 percent of businesses in the United States; in 1992, immigrants owned just 9 percent of businesses in the United States. Their companies generate \$776 billion in annual revenues and employ 4.7 million workers.⁹¹ Although many immigrants come to the United States with few assets, their dedication and desire to succeed enable them to achieve their entrepreneurial dreams. "Most immigrants have the risk gene already built in," explains Al Guerra, who emigrated to the United States from Cuba and now owns Kelvin International, a business that makes cryogenic (ultralow temperature) equipment.⁹²



ENTREPRENEURIAL PROFILE: Delfino Bello: El Faro

When Delfino Bello emigrated to the United States from Mexico, he spoke no English but learned quickly working various jobs in the restaurant industry. "I had nothing, nothing when I arrived in this country," he recalls. Bello worked hard, saved his money, and in 1995 opened a restaurant, El Faro, that specialized in authentic Mexican food in a modest shopping center in Bartlett, Illinois. El Faro flourished, and over the next several years, Bello opened two other locations in Bartlett and Elgin and now has plans to open a fourth location.⁹³



Venus Williams, entrepreneur and tennis star.

Source: Ezio Petersen/UPI/Newscom.

Part-Time Entrepreneurs

Starting a part-time business is a popular gateway to entrepreneurship. Part-timers have the best of both worlds. They can ease into a business without sacrificing the security of a steady paycheck. The Internet allows many entrepreneurs to run successful part-time businesses.



ENTREPRENEURIAL PROFILE: Sari Crevin: BooginHead By day, Sari Crevin worked as a human resources manager at Microsoft, but in the evenings and on weekends, the part-time entrepreneur operated BooginHead, a company that makes and markets fabric fasteners that parents can attach to pacifiers, sippy cups, and other items that tots like to toss to the ground. “I couldn’t find a product that met my own needs and standards,” says the busy mom. “I was tired of chasing after my one-year-old’s sippy cup that he loved to throw from his high chair and stroller.” Crevin built BooginHead’s annual sales to an impressive \$1.1 million while holding her full-time job before leaving Microsoft to focus her energy on her company. Crevin has a Web site for BooginHead, but most of her sales are at wholesale to large retailers, such as Babies R Us, Baby Depot, and Amazon.⁹⁴

A major advantage of going into business part-time is the lower risk in case the venture flops. Starting a part-time business and maintaining a “regular” job can challenge the endurance of the most determined entrepreneur, but it does provide a safety net in case the business venture fails. Many part-timers are “testing the entrepreneurial waters” to see whether their business ideas will work and whether they enjoy being self-employed. As part-time ventures grow, they absorb more of the entrepreneur’s time until they become full-time businesses. “There comes a point when you cannot get up and go to work because the only thing you want to do is your company,” says Divya Gugnani, who left her job with a venture capital firm to start BehindtheBurner.com, a Web site that features cooking tips and techniques. “The passion is so infectious.”⁹⁵

Home-Based Business Owners

Entrepreneurs in the United States operate 18.3 million home-based businesses, generating \$427 billion a year in sales. Fifty-three percent of all small businesses are home based, but most of them are very small with no employees.⁹⁶ In the past, home-based businesses tended to be rather unexciting cottage industries, such as making crafts or sewing. Today’s home-based businesses are more diverse; modern home-based entrepreneurs are more likely to be running high-tech or service companies with six-figure sales. Eight percent of home-based businesses generate more than \$500,000 in annual revenues.⁹⁷ Their success rate also is higher than companies that have locations outside the home; nearly 70 percent succeed for at least three years.⁹⁸ Less costly and more powerful technology and the Internet, which are transforming ordinary homes into “electronic cottages,” are driving the growth of home-based businesses.

On average, someone starts a home-based business every 11 seconds.⁹⁹ The biggest advantage home-based businesses offer entrepreneurs is the cost savings of not having to lease or buy an external location, something that allows them to generate higher profit margins. Home-based entrepreneurs also enjoy the benefits of flexible work and lifestyles.



ENTREPRENEURIAL PROFILE: Natalie Cox: Natty by Design Natalie Cox, a 28-year-old mother of four children, used her do-it-yourself furniture refurbishing skills to start Natty by Design, a home-based business that gives old pieces of furniture new life by refinishing or repainting them and adding new hardware. She launched the company in the basement of her family’s home in Phoenix, Arizona, to supplement her husband’s salary while he returned to college to earn an MBA degree. Cox describes the style of furniture she sells from a front room of her house that serves as both her office and showroom as “shabby chic.” Most of her company’s sales come from repeat business and referrals from existing customers and from her listings on Craigslist. “[My company] allows me to stay at home with my kids,” says Cox, “and business is thriving.”¹⁰⁰

Table 1.2 offers 20 guidelines home-based entrepreneurs should follow to be successful.

Family Business Owners

A **family-owned business** is one that includes two or more members of a family with financial control of the company. They are an integral part of the global economy. More than 80 percent of all companies in the world are family owned, and their contributions to the global economy are significant. In the United States alone, family businesses create 57 percent of the nation’s GDP,

TABLE 1.2 Rules for a Successful Home-Based Business

- Rule 1. Do your homework.** Much of a home-based business's potential for success depends on how much preparation an entrepreneur makes *before* ever opening for business. Your local library and the Web are excellent sources of information on customers, industries, competitors, and other important topics.
- Rule 2. Find out what your zoning restrictions are.** In some areas, local zoning laws make running a business from home illegal. Avoid headaches by checking these laws first. You can always request a variance.
- Rule 3. Create distinct zones for your family and business dealings.** Your home-based business should have its own dedicated space. About half of all home-based entrepreneurs operate out of spare bedrooms. The best way to determine the ideal office location is to examine the nature of your business and your clients. Avoid locating your business in your bedroom or your family room.
- Rule 4. Focus your home-based business idea.** Avoid the tendency to be "all things to all people." Most successful home-based businesses focus on a niche, whether it is a particular customer group, a specific product line, or in some other specialty.
- Rule 5. Discuss your business rules with your family.** Running a business from your home means that you can spend more time with your family—and that your family can spend more time with you. Establish the rules for interruptions up front.
- Rule 6. Select an appropriate business name.** Your first marketing decision is your company's name, so make it a good one! Using your own name is convenient, but it's not likely to help you sell your product or service.
- Rule 7. Buy the right equipment.** Modern technology allows a home-based entrepreneur to give the appearance of any *Fortune 500* company, but only if you buy the right equipment. A well-equipped home office should have a separate telephone line, a fast computer, a sturdy printer, a high-speed Internet connection, a copier/scanner, and an answering machine (or voice mail).
- Rule 8. Dress appropriately.** Being an "open-collar worker" is one of the joys of working at home. However, when you need to dress up (to meet a client, make a sale, meet your banker, or close a deal), do it! Avoid the tendency to lounge around in your bathrobe all day.
- Rule 9. Learn to deal with distractions.** The best way to fend off the distractions of working at home is to create a business that truly interests you. Budget your time wisely. Remember: Your productivity determines your company's success.
- Rule 10. Realize that your phone can be your best friend—or your worst enemy.** As a home-based entrepreneur, you'll spend lots of time on the phone. Be sure you use it productively.
- Rule 11. Be firm with friends and neighbors.** Sometimes friends and neighbors get the mistaken impression that because you're at home, you're not working. If someone drops by to chat while you're working, tactfully ask him or her to come back "after work."
- Rule 12. Maximize your productivity.** One advantage of working from home is flexibility. Learn the times during which you tend to work at peak productivity, whether that occurs at 2 P.M. or 2 A.M., and build your schedule around them.
- Rule 13. Create no-work time zones.** Because their businesses are always nearby, the tendency for some home-based entrepreneurs is to work all the time, which is not healthy. Set boundaries that separate work and no work times and stick to them.
- Rule 14. Take advantage of tax breaks.** Although a 1993 Supreme Court decision tightened considerably the standards for business deductions for an office at home, many home-based entrepreneurs still qualify for special tax deductions on everything from computers to cars. Check with your accountant.
- Rule 15. Make sure you have adequate insurance coverage.** Some home-owner's policies provide adequate coverage for business-related equipment, but many home-based entrepreneurs have inadequate coverage on their business assets. Ask your agent about a business owner's policy, which may cost as little as \$300 to \$500 per year.
- Rule 16. Understand the special circumstances under which you can hire outside employees.** Sometimes zoning laws allow in-home businesses, but they prohibit hiring employees. Check local zoning laws carefully.
- Rule 17. Be prepared if your business requires clients to come to your home.** Dress appropriately. (No pajamas!) Make sure your office presents a professional image.
- Rule 18. Get a post office box.** With burglaries and robberies on the rise, you are better off using a P.O. Box address rather than your specific home address. Otherwise, you may be inviting crime.
- Rule 19. Network.** Isolation can be a problem for home-based entrepreneurs, and one of the best ways to combat it is to network. It's also an effective way to market your business.
- Rule 20. Be proud of your home-based business.** Merely a decade ago, there was a stigma attached to working from home. Today, home-based entrepreneurs and their businesses command respect. Be proud of your company!

Sources: Based on Pamela Slim, "5 Keys to Making Your Home Office Work," *Open Forum*, June 24, 2009, www.openforum.com/idea-hub/topics/the-world/article/5-keys-to-making-your-home-office-work-pamela-slim; Lynn Beresford, Janean Chun, Cynthia E. Griffin, Heather Page, and Debra Phillips, "Homeward Bound," *Entrepreneur*, September 1995, pp. 116–118; Jenean Huber, "House Rules," *Entrepreneur*, March 1993, pp. 89–95; Hal Morris, "Home-Based Businesses Need Extra Insurance," *AARP Bulletin*, November 1994, p. 16; Stephanie N. Mehta, "What You Need," *Wall Street Journal*, October 14, 1994, p. R10; Jeffery Zbar, "Home Free," *Business Start-Ups*, June 1999, pp. 31–37.