

# Entrepreneurship

Successfully Launching New Ventures

Bruce R. Barringer

R. Duane Ireland

SIXTH EDITION



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**SUCCESSFULLY LAUNCHING NEW VENTURES**

SIXTH EDITION

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New York, NY

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## Dedication

To my wife, Jan. Thanks for your never-ending encouragement and support. Without you, this book would have never been possible. Also, thanks to all the student entrepreneurs who contributed to the chapter opening features in the book. Your stories are both insightful and inspiring.

—Bruce R. Barringer

To my family: I am so proud of each of you and so blessed by your perseverance and never-ending love and support. I know that sometimes it seems as though “we lose ourselves in work to do and bills to pay and that it’s a ride, ride, ride without much cover.” But you are always in my heart, a gift for which I remain deeply grateful.

—R. Duane Ireland

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# Preface

## New to this Edition

This sixth edition is a thorough revision of our book. Each chapter has been revised for the purpose of presenting you, our readers, with a foundational understanding of entrepreneurship as well as with current examples of actions being taken by entrepreneurs and by entrepreneurial firms. We use insights from the academic literature and the experiences of practicing entrepreneurs to inform our explanation of entrepreneurship. To present you with specific examples of entrepreneurs' actions and the actions taken by entrepreneurial firms, we again use insights from entrepreneurs as well as from business people. These insights from practicing entrepreneurs and their firms and from business people were drawn from many sources including podcasts, blogs, newspapers, companies' websites, and popular business publications such as *The Wall Street Journal* and *Fortune* magazine among many others. As we'll explain later in greater detail, we also draw from the academic literature to make certain that we are presenting you with accurate and current descriptions of what researchers have learned about successful entrepreneurs and effective entrepreneurial firms.

**Opening Profile** Each of the book's 15 chapters opens with a profile of an entrepreneurial firm that was started while the founder or founders were in college or shortly after graduating. All "Opening Profiles," with each one being linked to an individual chapter's topic, are new to this edition. Each "Opening Profile" is based on a personal interview with the student entrepreneur or entrepreneurs who founded the company around which each profile is written.

**Updated Boxed Features** The majority of the "Savvy Entrepreneurial Firm," "Partnering for Success," and "What Went Wrong?" boxed features are new to this edition. The few features that are not new have been updated. These features alert readers to contemporary issues facing entrepreneurs and their firms. In addition, the content of the features suggest actions



### Cofounders

#### RYAN GOLDSTON

BBA, Entrepreneurship, Finance & Marketing, University of Southern California, 2009

#### ADAM GOLDSTON

BS, Sociology, University of Southern California, 2009

### BEST ADVICE I'VE RECEIVED

Better to ask for forgiveness than for permission

### MY ADVICE FOR NEW ENTREPRENEURS

Invest in yourself

### MY BIGGEST WORRY AS AN ENTREPRENEUR

Not maximizing every opportunity

### BEST PART OF BEING A STUDENT

Free time and the environment

### MY FAVORITE SMARTPHONE APP

Instagram

## SAVVY ENTREPRENEURIAL FIRM

### Prototyping: How to Build What the Customer Wants

A **prototype** is an early sample, model, or release of a product that is built to test a concept or a process.

Step 1: A Drawing. A simple drawing of the device, with a paragraph or two that describes how it will

The idea is to show the sample users and then use their feedback. If you are making a hardware product, you may iterate on your prototype before you have a final design. I used to describe the process of it "fail early and often." That phrase is in the broad sense. It's more: It's a philosophy that suggests that involves running a lot of tests with Each test will allow you to discard the potential customers didn't like the parts of the product they did. For example, Owllet learned by way after they put their baby to sleep, the Owllet Baby Monitor Base Station they moved about the house, so the baby. This told Owllet that the Base

## PARTNERING FOR SUCCESS

### Collaborative Software: Helping New Venture Team Members Achieve Their Goals

#### What Is Collaborative Software?

Collaborative software is a computer program designed to help people involved in a common task to achieve their goals. Think of a basketball team. Although five members of a team are individuals, they coordinate their efforts to achieve the best results. In business, collaborative software engineers may be working on the Collaborative software helps them coordinate their efforts to achieve the best possible outcome.

#### Tools That Are Normally Included

The way collaborative software programs offer a common shared environment for

Most collaborative software systems are judged by their usefulness and ease of use. The ultimate test of a collaborative software system is whether it can help a team achieve its goals.

## WHAT WENT WRONG?

### Be Careful what You Wish for: How Growing too Quickly Overwhelmed One Company's Cash Flow

When Jim Picariello started Wise Acre Frozen Treats, no other company was making organic popsicles from unrefined sweeteners. Working out of a makeshift kitchen in 2006, Picariello developed his recipes using maple syrup and honey. He worked alone for a year and a half before hiring his first employee. About that time, his frozen popsicles really took off; by 2008, Wise Acre Frozen Treats had 15 employees, a 3,000-square-foot manufacturing facility, and was distributing its product to natural food stores and supermarkets across the East Coast. The company was awarded a contract to

potential investors, Wise Acre Frozen Treats found itself in somewhat of a no-man's-land. Although its future was bright, the entrepreneurial venture wasn't big enough yet for investors to take notice. As time went on, serious cash flow difficulties kicked in. According to a blog post that Picariello wrote about Wise Acre Frozen Treats' failure, the company was burning through about \$30,000 a month at its peak but didn't have the capital to back it up. In retrospect, many things lined up well for Wise Acre Frozen Treats. It had a product that sold well, it had national distribution, and it had a business plan that indicated that it

entrepreneurs can take to deal with various contemporary issues. The boxed features appearing in this new edition of our book focus on many different topics such as how entrepreneurial firms can use collaborative software to help team members reach their goals, the need to develop and test a prototype of a product or service as a means of determining how to meet customers' needs, and how growing too quickly overwhelmed a firm's ability to properly manage its cash flow.

**New and Updated End-of-Chapter Cases** The majority of the end-of-chapter cases are new to this edition. For example, through Case 10.2 on p. 376, you will learn about how Kickstarter is becoming an increasingly important pathway through which entrepreneurs obtain seed capital for their ventures. The few cases that have been retained have been updated. Two cases are presented at the end of each chapter. Comprehensive in nature, the cases have been selected to represent the principles examined within individual chapters and to provide readers with opportunities to think about how principles apply to situations particular companies are facing. The questions appearing at the end of each case can be used to stimulate classroom discussion or for quizzes or tests. MyLab Entrepreneurship offers additional discussion questions and practice questions to enhance your learning experience.

**New and Updated “You be the VC” Features** Two features called “You be the VC” appear toward the end of each chapter. Each of these unique features present readers with a “pitch” for funding an emerging entrepreneurial venture. The features are designed to stimulate classroom discussion by sparking a debate about whether a particular entrepreneurial venture should or should not be funded by a venture capitalist. In essence, students are asked to take on the role of a venture capitalist when evaluating the commercial viability of what are real-life entrepreneurial ventures. Almost all of the “You be the VC” features appearing in this edition are new.

**Updated References** The amount of academic research being completed to add to our understanding of entrepreneurship and how entrepreneurs practice it continues to expand. Importantly, the quality of this research, in terms of its ability to inform entrepreneurial practices, is increasing. To provide our readers with the most recent insights from academic journals, we draw ideas and insights from recent research articles appearing in well-established and highly respected journals such as *Strategic Entrepreneurship Journal*, *Journal of Business Venturing*, *Entrepreneurship Theory and Practice*, *Academy of Management Journal*, *Strategic Management Journal*, and *Organization Science* among others. All of these journals are recognized for their contributions to entrepreneurship that are made by the articles they publish. Similarly, and as mentioned previously, we draw from podcasts, blogs, companies' websites, and publications such as *The Wall Street Journal* and *Entrepreneur* among others to find materials that describe how entrepreneurs rely on their hard-earned practical experience in order to achieve success when leading their entrepreneurial ventures. The references we drew from academic journals are very current as are the stories and experiences that are described in the podcasts, blogs, and established publications that we consulted while writing this edition of our book.

## Solving Teaching and Learning Challenges

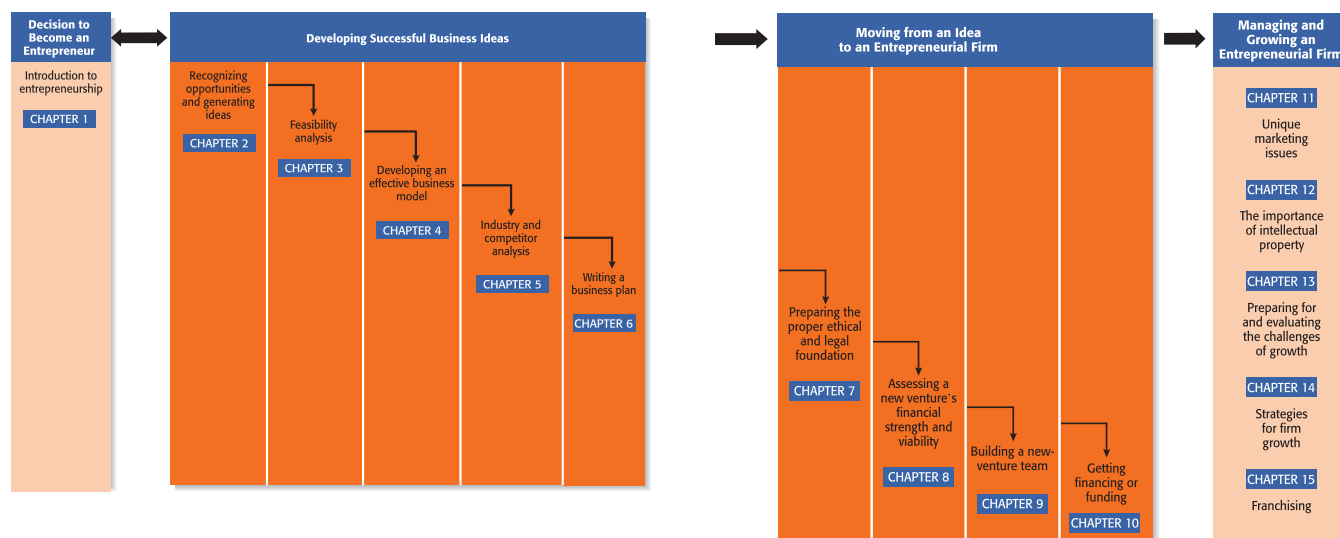
The lure of entrepreneurship for people who launch their own businesses is the ability to create a product or a service with the potential to enhance people's lives. While entrepreneurs want to earn profits from the money, time, and energy

they invest in their firms, they typically also want to make a difference—to individuals who buy their product or service and to the local community in which they operate. To do this though, entrepreneurs need to follow a process to fulfill their dreams and to be successful.

As has always been the case with our book, we remain committed to the position that to be successful, entrepreneurs must follow a specific set of activities. We call this set of activities “The Entrepreneurial Process,” around which this book is written. This process includes four interrelated steps: (1) deciding to become an entrepreneur, (2) developing successful business ideas, (3) moving from an idea to an entrepreneurial firm, and (4) managing and growing the entrepreneurial firm. While entrepreneurship is not easy, we strongly believe that following the entrepreneurial process presented in this book will increase the likelihood that entrepreneurs will be successful in their efforts to launch and operate a business that is based on their identification of an opportunity and the development of their unique idea, in the form of a product or a service, to pursue it.

By following this unique process, aspiring entrepreneurs increase the likelihood that the investments they make will pay dividends and will bring them great satisfaction as they meet the needs of various groups including customers, those working for the entrepreneurial venture, and the local communities in which those ventures operate. We use the following features to clearly and concisely explain the entrepreneurial process and to bring that process to life for readers in the process of doing so.

**The Entrepreneurial Process** The process’ 4 major steps are explained in a total of 15 chapters. Studying this process informs an understanding of entrepreneurship and how to practice it for the purpose of establishing and then successfully growing an entrepreneurial venture. Once a venture has been launched, entrepreneurs should continuously revisit and study the parts of the process to verify that the venture is taking actions with a high probability of leading to entrepreneurial success.



**Opening Profiles** Each of the book’s 15 “Opening Profiles” describes the launching of an entrepreneurial venture by entrepreneurs when they were university or college students (or shortly after graduation). The individual profiles are related to individual chapters’ core topic—a topic that is part of the entrepreneurial process. In addition to demonstrating how entrepreneurs apply a particular part of the entrepreneurial process, the “Opening Profiles” show that



as university-level students, some individuals decide at that time to become entrepreneurs. Owlet Baby Care, for example, is the subject firm of Chapter 3's "Opening Profile." This firm's product, called the Owlet Baby Sock, is also pictured on the cover of this book. By placing the Owlet Baby Sock on a foot, parents are able to monitor a baby's heartbeat and oxygen level while she or he sleeps. Chapter 3's topic is Feasibility Analysis, meaning that the discussion about Owlet Baby Sock in the chapter's "Opening Profile" revolves around efforts the firm's cofounders took to see if their product was indeed commercially feasible. Overall, the "Opening Profiles" show students reading this book that they, too, may have the potential to establish an entrepreneurial venture while attending a university or college or shortly after graduating.

**Partnering for Success Boxed Feature** The ability for entrepreneurial ventures to partner with other firms is becoming an increasingly important attribute of successful entrepreneurial ventures. This boxed feature exposes students to a number of different ways entrepreneurial ventures partner with

others for the purpose of increasing their success. Sometimes entrepreneurial firms partner with companies their own size while they partner with very large organizations in other instances. The purpose of this boxed feature, which appears in each of the 15 chapters, is to describe collaborative relationships that benefit entrepreneurial ventures. Questions about each feature's content appear at the end of the feature. These questions challenge students to think critically about the feature's content and can be used to stimulate classroom discussions.

**Savvy Entrepreneurial Firm** Each chapter contains a feature called "Savvy Entrepreneurial Firm." These features, which explain practices entrepreneurs follow that help their ventures become successful, present students with tools and techniques entrepreneurs use when leading entrepreneurial ventures. Essentially, this feature describes entrepreneurship in action. After reading all 15 "Savvy Entrepreneurial Firm" features, students will have a set of practices entrepreneurs use for the purpose of increasing their firm's operational success. Questions that can be used to facilitate discussions among students or as quizzes or tests appear at the end of each feature.

**What Went Wrong?** Mistakes are made in entrepreneurial firms. With this feature, with one appearing in each chapter, we describe for students "What Went Wrong?" for an entrepreneur and the venture she or he was leading. Reading these features explains actions to students that they want to avoid as entrepreneurs. The questions appearing at the end of each feature can be used as discussion starters, and as a foundation for asking students to describe actions that could have been taken to avoid the problem that is described in a particular "What Went Wrong?" feature.

## PARTNERING FOR SUCCESS

### Franchises Partner with Nonprofits to Give Back

An increasing number of franchise organizations are partnering with nonprofit organizations in an effort to give back. An example is Panera Bread. At the end of each day, Panera's bakery-cafés donate their unsold bread and baked goods to local hunger relief and charitable organizations. By doing this, Panera Bread extends its goal of providing wholesome food to people in the communities in which it operates.

The following are three rules-of-thumb that franchise organizations with successful partnerships with nonprofits follow.

#### #1 Find the Right Partner

Most franchise organizations have a mission or set of values that defines their purpose. For example, a franchise organization that sells children's clothing or provides after-school tutoring for kids might partner with an organization like St. Jude Children's Research Hospital. St. Jude provides medical assistance to children who are sick free of charge. By raising money for St. Jude or a similar nonprofit, a franchise organization that caters to children allows the children and their families to provide help to other children who are less fortunate than they are.

#### #3 Have Skin in the Game

For a partnership between a franchise organization and a nonprofit to be authentic, it is important that the franchise organization have skin in the game. Employees and customers respond more positively when they are not only being asked to donate money or time but the franchise organization is making a sacrifice, too. For example, in 2014, about 1,400 Denny's restaurants sold coupons in support of No Kid Hungry's efforts to help more than 16 million American children who struggle with hunger. For a \$3 donation, customers received \$9 worth of coupons that could be used at participating Denny's restaurants. Similarly, Sport Clips Haircuts sponsors an annual campaign titled "Saving Lives Never Looked So Good." It's a partnership between the sports-theme barbershop franchise and the American Red Cross. During the annual month-long campaign, Sports Clips gives a free haircut coupon to everyone who donates blood.

#### Questions for Critical Thinking

1. Identify an ideal nonprofit for a fitness center franchise that caters to college students to partner with.

## SAVVY ENTREPRENEURIAL FIRM

### How Retail Start-ups Compete Against Walmart and Other Big Box Retailers

One of the main fears that retail start-ups have is whether they'll be able to compete against Walmart, Home Depot, and the other big-box stores. It's a legitimate fear. The big-box stores continue to grow, particularly in terms of product line and geographic breadth. There are now big-box stores in towns with populations of 10,000 or less. We've all heard stories about big-box stores moving into small towns and driving local merchants out of business. So it's no wonder that someone with an idea for a men's clothing store or a pet store might wonder "but will I really be able to compete against Walmart?" Couple this fear with the fear of competing with e-commerce sites and it's easy to see why someone might pass on a potentially attractive business idea.

Still, many businesses do compete successfully against big-box stores. Their success, however, is not by chance. Although impossible to compete against Walmart and the others on price, price isn't everything. There are many other forms of competition including product quality, customer service, product knowledge, ties to the local community, and so forth. The following is an analysis of how big-box retailers compete, what their vulnerabilities are, and strategies for competing directly against big-box retailers.

The stores themselves also have inherent disadvantages. Customers complain of crowded aisles, long checkout lines, and an inability to find help if they're looking for something in the store. While the category killers, like Home Depot and PetSmart, are better at customer service and product knowledge, they're still trying to sell the most popular products to mainstream customers. For example, although Academy offers an impressive selection of sporting goods, clothing, and outdoor gear, it can't offer everything. This leaves an opening for a store like TrackShack, which is a locally-owned running shoe and running gear store in Orlando, FL.

TrackShack offers a wider selection of running shoes and deeper product knowledge than Academy or Dick's Sporting Goods could offer. Pause for a moment and look at TrackShack's website ([www.trackshack.com](http://www.trackshack.com)). This store is owned by local entrepreneurs—John and Betsy Hughes. If you compare TrackShack to Academy on running shoes, Academy may win on price, but TrackShack wins on selection, product quality, product knowledge, customer service, convenience, and ties to the local community. That's a pretty compelling set of advantages to build upon.

#### Strategies for Competing against Big-Box Stores

## WHAT WENT WRONG?

### How One Start-Up Caught the Attention of VCs, Gained 25,000 Daily Users, and Still Failed

DrawQuest was launched in February 2013 by Christopher Poole. It was a pivot—an earlier version of the product was called Canvas. DrawQuest was an app built for the iPad, iPhone, and iPad Touch. The idea was to encourage creativity through a daily drawing challenge.

Here's how it worked. Each day, a drawing challenge was posted. The DrawQuest screen would display part of a picture and challenge the user to complete it. For example, the screen might show a picture of a child looking into the water, and the challenge would be "What's in the water?" The user would then complete the picture. Other examples include a screen with a hat at the top, and the challenge would be "Who's wearing the hat?" Similarly, the screen might include a person standing on a balcony, and the challenge would be "What can you see from the balcony?" The DrawQuest app provided a basic kit of online drawing tools to complete the picture. The point wasn't to create an elegant drawing. In fact, the tools resulted in the drawings being somewhat cartoonish in nature. The point was to force people to be creative by deciding what to put in the water or what could be seen from the balcony. The app and the basic set of drawing tools were free. DrawQuest made money by selling upgrades to the kit of drawing tools, like better brushes, additional palettes of paint, more vivid colors, and so forth.

The app itself did well. In the short year it was in existence, it reached 1.4 million downloads, 650,000 ratings,

encountered was the pivot that Poole and his team executed. Prior to DrawQuest, the team built an app named Canvas that did not work out. They pivoted to DrawQuest, which resonated better with users and drew a larger audience. The problem is that they spent half their investors' money on Canvas. Referring to that challenge, Poole wrote, "We built this app (DrawQuest) with less than half of our runway remaining. You have to do twice as much with half as much money. It's really frisking hard."

Ultimately, Poole and his team decided to pull the plug. They investigated selling DrawQuest to another company, but no one bit. In the blog post titled "Today My Startup Failed," Poole provided insight into the human side of business failure. He wrote:

I'm disappointed that I couldn't produce a better outcome for those who supported me the most—my investors and employees. Few in business will know the pain of what it means to fail as a venture-backed CEO. Not only do you fail your employees, your customers, and yourself, but you fail your investors—partners who helped you bring your idea to life.

#### Questions for Critical Thinking

1. Explain the problem that DrawQuest encountered.

**Barringer/Ireland Business Model Template** The Barringer/Ireland Business Model Template, developed by the authors specifically for this book, is a nicely designed tool that helps students think through and articulate the business model for a proposed venture or an existing firm. Each section of the template, which is presented as Appendix 1 on p. 156 in Chapter 4, is fully explained in the chapter. The template can be easily copied and used by those wishing to develop a business model for an entrepreneurial venture. Additionally, if students are required to develop an idea for an entrepreneurial venture as a course requirement, they can also be asked to complete the template as part of such an assignment. In Case 4.2, titled “TOMS’ One-for-One Business Model: Is It Sustainable?” we use the Barringer/Ireland Business Model Template to present TOMS’ business model (see p. 151). This allows students to study a “live” business model and increase their understanding of how to use the template.

**Feasibility Analysis** Students and entrepreneurs typically find it challenging and difficult to determine if their idea for a product or service is feasible as the foundation for an entrepreneurial venture. Chapter 3 provides a detailed explanation of the steps entrepreneurs should take to complete a feasibility analysis. These steps are shown in Table 3.1. Three additional tools are offered to students in Chapter 3 to enhance their understanding of how to conduct a feasibility analysis. In Appendix 3.1 on p. 113, tips for conducting interviews to assess a product or a service’s feasibility, as well as examples of questions to ask and questions not to ask during an interview, are presented. In Appendix 3.2 (see p. 114), we present a tool called First Screen. Students and entrepreneurs can use this template to complete a feasibility analysis regarding an idea they have for an entrepreneurial venture. Finally, Appendix 3.3 on p. 116 contains an Internet Resource Table that provides resources that are helpful when completing the First Screen template. In all, students can use the tools and information featured in these three appendixes to assess the feasibility of an idea they have as the foundation for launching an entrepreneurial venture.

**End-of-Chapter Review and Application Questions** Two sets of questions appear at the end of each chapter. By answering the review questions, students have opportunities to see if they have understood the concepts, tools, and techniques that were presented within each chapter. More comprehensive in nature, the application questions can be used to stimulate classroom discussions or to assess students’ ability to explain how chapter-specific concepts, tools, and techniques would be used by an entrepreneur or within an entrepreneurial firm.

### Review Questions

- 1-1. Do you anticipate that entrepreneurship will continue spreading throughout the world, or do you think its appeal will subside over time?
- 1-2. What key insights does the GEM study provide us about entrepreneurship?
- 1-3. What does evidence show us about the rate of failure associated with entrepreneurial ventures?
- 1-11. Why is a product/customer focus an important characteristic of successful entrepreneurs?
- 1-12. What is it about “tenacity” that makes it such an important characteristic for entrepreneurs?
- 1-13. What are the five common myths of entrepreneurship?
- 1-14. What is the evidence that debunks the

### Application Questions

- 13-21. Pete Martin just purchased a copy of *Inc.* magazine’s annual issue that ranks the top 500 fastest-growing privately owned companies in America. Pete was amazed by some of the stories that were told in different articles appearing in

the magazine and as a result, is more encouraged than ever to start his own art restoration firm. Pete believes his firm can grow 100 percent or more per year. He is ready to cash out his savings and get started. Is Pete starting this

**You be the VC** Two of these features, which asks students to assume the role of a venture capitalist, appear at the end of each chapter. In each “You be the VC” feature, the idea behind a newly-launched entrepreneurial venture is described. Given the product or service and the firm, students are asked to decide what additional information they would require to decide if they would or would not fund the venture. Chapter 6’s “You be the VC 6.2” (see p. 224) discusses Ava, a company that has built a smartphone app that transcribes translations received through mobile phones into texts. These translations allow people with hearing problems to follow conversations occurring

in group settings. With a total of 30 “You be the VC” features included in the book, students have multiple opportunities to carefully evaluate the commercial potential of a variety of products and services being offered by newly-established entrepreneurial firms.

### YOU BE THE VC 6.2 COMPANY: Ava

• Web: [www.ava.me](http://www.ava.me) • Facebook: [Avadotme](https://www.facebook.com/Avadotme) • Twitter: [@avascribe](https://twitter.com/avascribe)

**Business Idea:** Build a smartphone app that transcribes conversations received through mobile phones’ microphones into text, so people with hearing problems can follow along in a group setting.

**Pitch:** It is difficult for people who are deaf or hearing-impaired to follow conversations in group settings such as a family dinner, a business meeting, a presentation, or lunch with friends. Even in a setting where every participant knows sign language, picking up an entire conversation is challenging. Sign language relies on people watching each other sign, and in a group setting people often talk that are not directly looking at each other. The only option that people with hearing problems have to fully capture a group conversation is to hire a transcriber or interpreter. That’s an impractical solution, given that transcribers and interpreters charge up to \$125 per hour.

Ava is a smartphone app designed to tackle this problem. Here’s how it works: Ava connects all the smartphones in a room via an app. All a person with hearing difficulties has to do is invite the people in the room to participate, and if they have Ava on their phones, they can accept the invite. Ava will then, through the microphone in each participant’s smartphone, transcribe the conversation in real time and display the transcription on the hearing-impaired person’s phone. Each person’s comments include their name and show up in a different color. Ava’s interface will also show a small photo of each person who is involved with the conversation. So if Jane, who is deaf, invites Ava at the beginning of a family dinner, and all the members of Jane’s family have the Ava app and accept Jane’s invite, Jane can follow the conversation on her smartphone. The transcriptions, which are made possible via the speech recognition technology, are made in less than one second.

### YOU BE THE VC 12.2 COMPANY: Kolibree

• Web: [www.kolibree.com](http://www.kolibree.com) • Facebook: [Kolibree](https://www.facebook.com/Kolibree) • Twitter: [@Kolibree](https://twitter.com/Kolibree)

**Business Idea:** Develop a smart toothbrush that can tell users if they are brushing well. Accompany the toothbrush with smartphone games in which good brushing is rewarded with high scores in the games.

**Pitch:** There are a number of problems associated with dental hygiene. For example, experience suggests that most children don’t like to brush their teeth. Most adults brush their teeth, but don’t brush long enough. Dentists generally recommend that people brush their teeth twice a day, for at least two minutes each time. That’s longer than most people who think they’re doing a good job brushing their teeth actually brush.

Kolibree was created to help solve these problems. The firm has developed a smart toothbrush, called the Kolibree Connected Toothbrush, for adults and children. This

product connects via Bluetooth to a smartphone app that can tell users if they are brushing in a healthy manner. The Kolibree toothbrush looks similar to other toothbrushes, but that’s where the similarity ends. It is equipped with an accelerometer, a gyroscope, and 3D motion sensors that can tell you where you’ve brushed and where you’ve missed. It is elegantly and ergonomically designed for all hand sizes and weighs a comfortable 2.5 ounces. The brush has removable heads, so the same brush can be shared among multiple family members. Each member of a family can set up a dashboard that records their daily brushing performance. The information the brush collects about brushing habits is transmitted to the dashboard and can be viewed in real time or studied later. If you view it in real time, a 2D graphic highlights where you should focus and for how long. The app will let you know when you’ve

**End-of-Chapter Cases** Two cases appear at the end of each chapter. Comprehensive in scope, both cases presented within individual chapters speak to those chapters’ core topics. Dealing with real companies, these cases present students with opportunities to evaluate multiple applications of a particular chapter’s concepts, tools, and techniques as they are applied within a firm. In some instances, a case asks students to evaluate firms that are not being as successful as those leading them want to be the case. This is true for Quiznos, which is the subject of Case 15.1 (see p. 564). This case describes the challenges a franchisor (Quiznos) has encountered over a number of years following a successful launch and after achieving initial successes. Questions appearing at the end of this case challenge students to decide if they believe that actions this firm is taking today will result in a positive turnaround for Quiznos as a foundation for returning to entrepreneurial success. In other instances, an end-of-chapter case describes an entrepreneurial venture’s success and asks students to decide if the firm’s positioning will yield additional success across time. This situation describes d.light, the focal firm of Case 6.2 on p. 228. As explained in this case, d.light’s business plan was instrumental to its success and appears to have the potential to be the foundation for the firm’s continuing success in the future. However, the firm faces challenges, some of which appear in the form of questions that students can answer as a means of fully considering d.light’s future.

### CASE 6.2

#### d.light: How Bringing Its Business Plan to Life Helped a Social Enterprise Get Off to a Strong Start

• Web: [dlightdesign.com](http://dlightdesign.com) • Facebook: [D.LightDesign](https://www.facebook.com/D.LightDesign) • Twitter: [@dlightdesign](https://twitter.com/dlightdesign)

Bruce R. Barringer, *Oklahoma State University*  
R. Duane Ireland, *Texas A&M University*

##### Introduction

Imagine the following. You are in the audience of a business plan competition. The next team up to present is d.light, a for-profit social enterprise that plans to bring light to people without access to reliable electricity. Two young men introduce themselves as the founders of d.light, and say they’re going to start their presentation with a demonstration. The lights go out. In a few

seconds, a kerosene fire, an event that deeply impacted Goldman. At one point during his time in the village, Goldman was given a battery-powered LED headlamp, and was struck by the dramatic difference that simply having light at night can make in a person’s life. He could now cook, read, and do things at night that were unimaginable without the benefits reliable lighting provides. Impacted by this experience, Goldman sought

### CASE 15.1

#### Quiznos: Will It Regain a Leadership Position in the Sandwich and Sub Shop Franchise Industry?

• Web: [www.quiznos.com](http://www.quiznos.com) • Facebook: [Quiznos](https://www.facebook.com/Quiznos) • Twitter: [@Quiznos](https://twitter.com/Quiznos)

Bruce R. Barringer, *Oklahoma State University*  
R. Duane Ireland, *Texas A&M University*

##### Introduction

In the early 1980s, Jimmy Lambatos moved from New York City to Denver to attend college. Growing up in New York, he frequently ate sub sandwiches made with crusty Italian bread. It was artisan bread, the flavorful kind with spices, oils, and vinegars. Once in Denver, Lambatos kept eating sub sandwiches, but couldn’t find a sandwich shop that used artisan bread. He caught

like their sandwiches warm, but that the heat brings out the flavor in artisan breads. After operating solely from Grant and 13th in Denver for two years, Quiznos started franchising in 1983. By 1987, 12 Quiznos restaurants were operating in the United States. That year, Richard Schaden, at the age of 23, and his father, who was an aviation attorney, opened a Quiznos franchise in Boulder, CO. They opened three additional Quiznos sub

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## Developing Employability Skills

To succeed in today's rapidly changing job market, students should develop skills that will facilitate their efforts to achieve career success—whether they intend to be an entrepreneur or not. In this book, we focus on developing “employability skills” that will help students who seek to be entrepreneurs as well as those who seek to achieve business success by pursuing different options. We focus on developing these skills in the following ways:

**Business Ethics and Social Responsibility** Examples of firms engaging in socially responsible actions and seeking to solve some of society's challenges appear throughout the book. For instance, consider the story of GiveForward, the focal firm of the “You be the VC 7.1” feature. This firm has launched a crowdfunding platform that allows people to send financial support and encouragement to individuals facing a medical crisis to provide for their out-of-pocket medical expenses. We discuss the need for firms to establish a strong ethical culture as a foundation for how they operate. Specific actions business people can take to “lead by example” when it comes to demonstrating ethical behaviors consistently appear on p. 238. We also describe on p. 239 what should be done to implement an ethics training program in entrepreneurial ventures and all other types of firms. Moreover, when considering each chapter's core topic, instructors can ask students to discuss the “ethical issues” associated with, for example, building effective work teams (Chapter 9) and deciding how to market a firm's product or service (Chapter 11).

**Critical Thinking** Learning how to think critically about issues is foundational to a person's ability to identify opportunities to develop a product or service that meets a certain customer group's needs. The 30 end-of-chapter cases in this edition expose students to an array of products and services that entrepreneurs developed to serve customers. In each instance, the entrepreneurs had to think critically as a foundation for deciding how to proceed to launch their ventures. In Case 1.1, for example (see p. 34), Julie Rice and Elizabeth Cutler decided that they wanted to create an alternative to fitness routines and experiences that felt like work. After thinking through various options, they developed a cardio-workout experience that is relational in nature for their customers. In their view, the exercise experience SoulCycle provides to customers is tribal, primal, and fun.

### YOU BE THE VC 7.1 COMPANY: GiveForward

• Web: [www.giveforward.com](http://www.giveforward.com) • Facebook: GiveForward • Twitter: @GiveForward

**Business Idea:** Launch a crowdfunding platform that allows people to send financial support and encouragement to individuals facing a medical crisis to provide for their out-of-pocket medical expenses.

**Pitch:** Each year, Americans incur over \$400 billion in out-of-pocket medical expenses that are not covered by insurance. Many people find themselves in difficult situations. They are battling a disease such as cancer or recovering from a medical crisis like a stroke, and they have out-of-pocket medical expenses they are unable to pay. Often, the patient has family or friends who want to raise money to help, but they don't know how to go about it. They may sponsor a charity event or try to collect money on their own, but their efforts often fall short of resolving their loved one's medical expenses.

goes for credit card merchant fees, and the remainder is retained by GiveForward. Supporters are provided the option of donating a little extra to cover the fees. Over 60 percent of them do so.

Since the site was launched in 2008, GiveForward has helped facilitate tens of thousands of medical fundraising campaigns and helped raise over \$84 million. Growth in the number of campaigns and dollar amount being donated is accelerating. While many campaigns are for less than \$10,000, some campaigns have been for much larger amounts. In the wake of the 2013 Boston Marathon bombings, the family and friends of two people who were injured launched a GiveForward campaign that raised almost a million dollars.

GiveForward's founders are often asked to do the same



**Collaboration Skills** There is no doubt that being able to collaborate with others (both within and outside a firm) is critical to success for firms competing in today's business environment. In particular, the "Partnering for Success" features allow students to increase their understanding of how collaboration increases the likelihood of a firm improving its performance. In Chapter 8's feature (see p. 279), students learn how entrepreneurial firms participate in groups (often called cooperatives) that are organized and used for the purpose of helping individually small firms gain access to the benefits accrued through collective purchases of products rather than purchasing as individual firms.

**Data Literacy** Being able to interpret the business-related meaning of data is a critical skill for today's business people to develop. The Feasibility Analysis Templates appearing as appendixes at the end of Chapter 3 help students understand how to interpret data for the purpose of deciding if a business idea is feasible and as such, worth pursuing. The Barringer/Ireland Business Model Template generates data students can analyze for the purpose of forming a business model for an entrepreneurial venture. Interpreting the meaning of financial data is at the center of Chapter 10's discussion of how entrepreneurial firms obtain the funding required to launch and/or continue their operations. How entrepreneurs interpret financial data though parallels how all business people interpret such data.

## Instructor Teaching Resources

This program comes with the following teaching resources:

Supplements available to instructors  
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### Features of the Supplement

#### Instructor's Manual

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from Stetson University

- Chapter-by-chapter summaries
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- Teaching tips
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More than 1,500 multiple-choice, true/false, and short-answer questions with these annotations:

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- Learning outcome
- AACSB learning standard (Written and Oral Communication; Ethical Understanding and Reasoning; Analytical Thinking; Information Technology; Interpersonal Relations and Teamwork; Diverse and Multicultural Work; Reflective Thinking; Application of Knowledge)

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TestGen allows instructors to:

- Customize, save, and generate classroom tests
- Edit, add, or delete questions from the Test Item Files
- Analyze test results
- Organize a database of tests and student results

#### PowerPoints

authored by Bruce Barringer  
from Oklahoma State University

Slides include many of the tables, illustrations, and figures in the textbook. PowerPoints meet accessibility standards for students with disabilities. Features include, but are not limited to:

- Keyboard and Screen Reader access
- Alternative text for images
- High color contrast between background and foreground colors

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We wish each of you—our readers—all the best in your study of the entrepreneurial process. We do indeed hope that each of you will be highly successful entrepreneurs as you pursue the ideas you will develop at different points in your careers.



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**Bruce R. Barringer** Bruce R Barringer is a professor and department head for the School of Entrepreneurship at Oklahoma State University. He also holds the N. Malone Mitchell Jr. and the Student Ventures chairs. Bruce received his PhD from the University of Missouri and his MBA from Iowa State University. His research interests include feasibility analysis, firm growth, corporate entrepreneurship, and the impact of interorganizational relationships on business organizations. Over the years, he has worked with a number of technology-based incubators and student-led entrepreneurship activities and clubs.

Bruce's work has been published in *Strategic Management Journal*, *Journal of Management*, *Journal of Business Venturing*, *Journal of Small Business Management*, *Journal of Developmental Entrepreneurship* and several other outlets. He is the author or coauthor of five books, including *Entrepreneurship Successfully Launching New Ventures* (Pearson, 2019), *Preparing Effective Business Plans* (Pearson, 2015), *Launching a Business: The First 100 Days* (Business Expert Press, 2013), *The Truth About Starting a Business* (FT Press, 2009), and *What's Stopping You? Shatter the 9 Most Common Myths Keeping You from Starting Your Own Business* (FT Press, 2008).

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**R. Duane Ireland** R. Duane Ireland is a University Distinguished Professor and holds the Benton Cocanougher Chair in Business in the Mays Business School, Texas A&M University. He also serves as the Executive Associate Dean for the Mays School. Previously, he served as a member of the faculties at the University of Richmond, Baylor University, and Oklahoma State University. His research interests include strategic entrepreneurship, entrepreneurship in informal economies, corporate entrepreneurship, and the effective management of organizational resources.

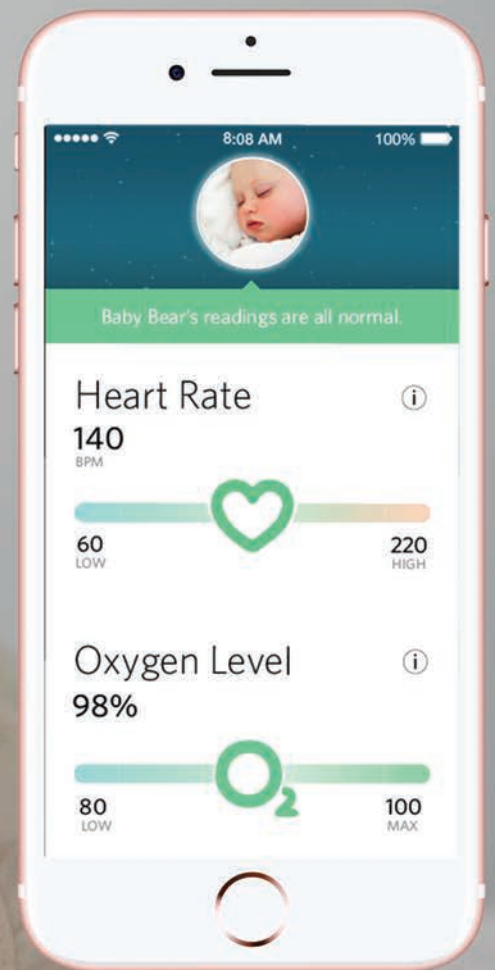
Duane's research has been published in journals such as *Academy of Management Journal*, *Academy of Management Review*, *Academy of Management Executive*, *Academy of Management Perspectives*, *Academy of Management Annals*, *Administrative Science Quarterly*, *Strategic Management Journal*, *Journal of Management*, *Strategic Entrepreneurship Journal*, *Journal of Business Venturing*, and *Entrepreneurship Theory and Practice*, among others. He is a co-author of both scholarly books and textbooks in the areas of entrepreneurship and strategic management.

Duane has served as a member of editorial review boards for many journals including *Academy of Management Journal*, *Academy of Management Review*, *Journal of Management*, and *Journal of Business Venturing*. He completed a three-year term as editor of the *Academy of Management Journal* and was the 69<sup>th</sup> president of the Academy of Management. He is a fellow of the Academy of Management and a fellow of the Strategic Management Society. He has received a number of awards such as a Lifetime Achievement Award for Scholarship and Research from Mays Business School, a Distinguished Service Award from the Academy of Management, and a Distinguished Service Award from the Strategic Management Division of the Academy of Management. Duane's outside interests include running, reading, and spending time with his family.



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# PART 1 **Decision to Become an Entrepreneur**



Owlet Baby Care, Inc.

## CHAPTER 1 **Introduction to Entrepreneurship** 3

# Getting Personal

with RIFFRAFF



## Founder

### KIRSTEN BLOWERS

Bachelors of Interior Design,  
University of Arkansas, 2008

## Dialogue *with* Kirsten Blowers

### MY FAVORITE SMARTPHONE APP

Instagram! I can't get enough

### MY BIGGEST WORRY AS AN ENTREPRENEUR

What if I don't want to do what I'm doing anymore? Luckily, I don't think I'll be there for a very, very, very long time. I love what I do

### WHAT I DO WHEN I'M NOT WORKING

Binge watching a Netflix series.  
Or traveling

### BEST PART OF BEING A STUDENT

Being surrounded by my forward thinking peers daily

### FAVORITE BAND ON MY SMARTPHONE MUSIC LIST

Ryan Adams or Randy Rodgers Band

### BEST ADVICE I'VE RECEIVED

In order to love who you are you cannot hate the experiences that shaped you

# CHAPTER 1

# Introduction to Entrepreneurship

## OPENING PROFILE

### RIFFRAFF

#### The Classic Entrepreneurial Story

• **Web:** [www.shopriffraff.com](http://www.shopriffraff.com) • **Facebook:** [RiffraffFayetteville](https://www.facebook.com/RiffraffFayetteville) • **Twitter:** [@ShopRiffraff](https://twitter.com/ShopRiffraff)

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It all began in 2008, when Kirsten Blowers got an internship with an interior design firm. The recession had just hit, and she realized it was unlikely she'd get a job in interior design. So with just \$100 as a start, she scoured local garage and yard sales to buy used furniture. She refurbished the furniture and sold it on Facebook to friends. She invested the money she earned in inventory until she had enough to open a small storefront in Fayetteville, the home of the University of Arkansas, where she went to school. She named the business Riffraff.

Blowers ran Riffraff for about a year and a half as a home décor store. Pinterest came along and started teaching people how to refurbish furniture on their own, and sales dipped. At that time, Blowers introduced clothing and jewelry to make Riffraff more of a lifestyle boutique. The first night Riffraff sold clothes the clothing sold out, and that night's sales exceeded sales for the entire month before. So Blowers quickly conclude that clothing was the way to go.

Since that time, Riffraff has taken off. The store has moved from its original location to a larger space in downtown Fayetteville, and now occupies a 3,000 square foot facility. Blowers, who recently turned 30, presently owns four businesses, including Riffraff, the original boutique; [shopriffraff.com](http://shopriffraff.com), an online store; Charlie Southern, a lifestyle line that sells t-shirts and accessories that celebrate the beautiful states across America, and Friday + Saturday, an uplifting brand that sells clothing; celebrates the potential and success of women and girls. About 65 percent of all sales come from [shopriffraff.com](http://shopriffraff.com). Together, the four businesses will generate revenue of over \$5 million in 2017. Blowers employs over 30 full and part-time employees, all under the age of 30.

There are several things about Blowers' entrepreneurial journey that provide insight into her success. First, she seems to have a knack for picking the right clothes to sell. She says that she selects clothes with three customers in mind: herself (she carries clothes she'd like to wear), a friend of hers that has three small children, and college females. Second, she remains passionate about her businesses. She's enjoyed the trials and triumphs that come with being a business owner. She also takes it seriously. She says that as a business owner she feels her personal reputation

## LEARNING OBJECTIVES

*After studying this chapter you should be ready to:*

1. Describe entrepreneurship, corporate entrepreneurship, and the characteristics of entrepreneurial firms.
2. Discuss three main reasons people decide to become entrepreneurs.
3. Identify four main characteristics of successful entrepreneurs.
4. Explain five common myths regarding entrepreneurship.
5. Describe the three types of start-up firms.
6. Discuss the changing demographics of entrepreneurs in the United States.
7. Discuss the positive effects of entrepreneurship and entrepreneurial firms on economies and societies.
8. Explain the entrepreneurial process.
9. Learn how understanding entrepreneurship and the entrepreneurial process can facilitate your career success.



is on the line—she doesn't see herself as a failure so won't let her businesses fail either. Third, she's a planner and enjoys immersing herself in the details. When rolling out a new initiative, she plans how she wants it to go and instructs her staff on how to execute. Finally, Blowers and her staff maintain tremendous attention to detail. For example, her online store, [shopriffraff.com](http://shopriffraff.com), experiences very few returns. She attributes this to the fact that every item is carefully described and measurements are provided. She and her staff are also very active on social media. They frequently respond to queries like, "Will this blouse look good with these pants?"

There are two specific anecdotes about Blowers that provide additional insight. First, at one point Blowers owned a boutique in a fashionable part of Dallas. Dallas was the single biggest market that [shopriffraff.com](http://shopriffraff.com) shipped to, so it seemed to be the ideal place for expansion. It didn't work. Dallas is 330 miles from Fayetteville, where Blowers' other businesses are located. She says she missed being able to drop by the business anytime she wanted to check things out. She also found her Dallas clientele to be much different than the clientele with whom she was more familiar. Blowers' decision to close the Dallas store demonstrates that she isn't afraid to admit when she's made a mistake and take action to correct it. Second, in 2012 Blowers created a T-shirt that had the word Love scrawled on the front with the o (in Love) replaced by a picture of the state of Arkansas. She called it the State Love Tee. It sold out every time she featured it. Several months after the T-shirt's debut, she began spotting the same design in other clothing stores in Arkansas. She initially reacted by sending cease-and-desist orders and filing lawsuits, but then saw a way to turn a negative into a positive. She decided to wholesale the T-shirt to give her competitors a legal way to sell it and create a new source of income for herself. Charlie Southern, one of Blowers' four businesses, emerged from this initiative. Blowers' State Love T-shirt, along with other Charlies Southern T-shirts and accessories, are now sold in over 500 women's clothing boutiques across the country.

Social media has played an active role in Blowers' success, and one of her goals is to stay on the cusp of social media trends. She says she owes Facebook a lot. In the early days, she was able to advertise her painted-furniture on Facebook for free. The Riffraff Facebook page currently has over 603,000 likes and 590,100 followers. That's more than 50 percent of the number of likes at Ann Taylor's Facebook page, a women's clothing line, which has been in business since 1954. Riffraff's Facebook page is very lively, and is informative and fun. Riffraff is also very active on Twitter, Instagram, Pinterest, and Snapchat. The company's Snapchat presence is mostly for fun. It shows behind-the-scenes shots and shenanigans from Riffraff's facilities in Fayetteville.

Blowers envisions a bright future for her businesses. She's enjoyed her entrepreneurial journey and plans to continue building her businesses.

In this first chapter of your book about the successful launching of an entrepreneurial venture or firm, we define entrepreneurship and discuss why some people decide to become entrepreneurs. We then consider successful entrepreneurs' characteristics, the common myths surrounding entrepreneurship, the different types of start-up firms, and the changing demographics of entrepreneurs in the United States and other nations as well. We then describe entrepreneurship's importance, including the economic and social impact of new firms as well as the importance of entrepreneurial firms to larger businesses. To close the chapter, we introduce you to the entrepreneurial process. This process, which we believe is the foundation for successfully launching and operating a start-up firm, is the framework we use to present the book's materials to you.

## Introduction to Entrepreneurship

There is tremendous interest in entrepreneurship around the world. Although this statement may seem bold, there is evidence supporting it, some of which is provided by the Global Entrepreneurship Monitor (GEM). GEM, which is a joint research effort among several international universities and the International Council for Small Business, tracks entrepreneurship in 112 countries, including the United States. Of particular interest to GEM is total early stage entrepreneurial activity (TEA), which consists of businesses that are just being started and businesses that have been in existence for less than three and a half years. A sample of the rate of total early-stage entrepreneurial activity in countries included in the GEM study is shown in Table 1.1. Although the highest rates of entrepreneurial start-up activities occur in low-income countries, where good jobs are not plentiful, the rates are also impressive in high-income countries such as Germany (4.7 percent), United Kingdom (6.9 percent), and the United States (11.9 percent). What the 11.9 percent means for the United States is that almost 1 out of every 8 1/2 American adults is actively engaged in starting a business or is the owner/manager of a business that is less than three-and-a-half-years old.<sup>1</sup>

The GEM study also identifies whether its respondents are starting a new business to take advantage of an attractive opportunity or because of necessity to earn an income. The majority of people across the countries the GEM study follows are drawn to entrepreneurship to take advantage of attractive opportunities, rather than starting out of necessity. In fact, in countries with a strong inclination for innovation like Germany and the United States, the number of people who start businesses to pursue an opportunity outnumber the people who are starting a business out of necessity 3.4 to 1.0.<sup>2</sup>

One criticism of entrepreneurship, which is often repeated in the press, is that the majority of new businesses fail.<sup>3</sup> It simply isn't true. The often used statistic that 9 out of 10 businesses fail in their first few years is an exaggeration.

**TABLE 1.1 Rates of Early-Stage Entrepreneurial Activity (Ages 18 to 64)**

Country	Percent of Population Starting a New Business
Argentina	17.7%
Brazil	21.0%
Chile	25.9%
China	12.8%
Finland	6.6%
Germany	4.7%
Philippines	17.2%
Spain	5.7%
United Kingdom	6.9%
United States	11.9%

Source: Based on D. Kelley, S. Singer, and M. Herrington, *Global Entrepreneurship Monitor 2015/6 Global Report* (Babson, Universidad del Desarrollo, Universiti Tun Abdul Razak, Tecnológico de Monterrey, and International Council for Small Business, 2015/6).



In the United States, according to the Bureau of Labor Statistics, over half the businesses started are still in existence five years later.<sup>4</sup> The number drops to just over a third after 10 years, but some of the businesses disappeared because they were successful and were sold or were acquired by another firm. While overall these figures are heartening, the percentage of firms that do fail shows that a motivation to start and run a business isn't enough; indeed, motivation must be coupled with a solid business idea, good financial management, and effective execution to maximize chances for success. In this book, we'll discuss many examples of entrepreneurial firms and the factors separating successful new ventures from unsuccessful ones.

Many people see entrepreneurship as an attractive career path. Think about your friends and others you know. In all probability, you are acquainted with at least one or two people who want to become an entrepreneur—either now or at some point in the future. The number of books dealing with starting one's own business is another indication that entrepreneurship is growing in popularity. Amazon.com, for example, currently lists over 58,510 books dealing with entrepreneurship and over 80,686 books concerned with small businesses. The number of books on entrepreneurship is up from 36,900 just three years ago.

## What Is Entrepreneurship and Why Is It Important?

### LEARNING OBJECTIVE

1. Describe entrepreneurship, corporate entrepreneurship, and the characteristics of entrepreneurial firms.

The word *entrepreneur* derives from the French words *entre*, meaning “between,” and *prendre*, meaning “to take.” The word was originally used to describe people who “take on the risk” between buyers and sellers or who “undertake” a task such as starting a new venture.<sup>5</sup> Inventors and entrepreneurs differ from each other. An inventor creates something new. An entrepreneur assembles and then integrates all the resources needed—the money, the people, the business model, the strategy, and the risk-bearing ability—to transform the invention into a viable business.<sup>6</sup>

**Entrepreneurship** is defined as the process by which individuals pursue opportunities without regard to resources they currently control for the purpose of exploiting future goods and services.<sup>7</sup> Others define it more simply, seeing entrepreneurship as the art of turning an idea into a business. In essence, an entrepreneur's behavior finds him or her trying to identify opportunities and putting useful ideas into practice.<sup>8</sup> The tasks called for by this behavior can be accomplished by either an individual or a group and typically require creativity, drive, and a willingness to take risks. Kirsten Blowers, the subject entrepreneur in the chapter's “Opening Profile,” exemplifies all these qualities. Kirsten saw an *opportunity* to create a new type of women's clothing boutique and online store and a new type of shopping experience for the women in her target market. She *risked* her career by passing up alternatives to work on Riffraff full time, and she's now *working hard* to put Riffraff in a position to deliver *creative* and *useful* products to its customers.<sup>9</sup>

In this book, we focus on entrepreneurship in the context of an entrepreneur or team of entrepreneurs launching a new business. However, ongoing firms can also behave entrepreneurially. Typically, established firms with an entrepreneurial emphasis are proactive, innovative, and risk-taking. For example, Google is widely recognized as a firm in which entrepreneurial behaviors are clearly evident. Larry Page, one of Google's cofounders, is at the heart of Google's entrepreneurial culture. With his ability to persuade and motivate others' imaginations, Page continues to inspire Google's employees as they develop innovative product after innovative product. To consider the penetration Google has

with some of its innovations, think of how often you and people you know use the Google search engine, Gmail, Google Maps, Google Earth, or Google Home. Google is currently working on a bevy of far-reaching innovations, such as a virtual reality platform for Android and self-driving cars. Similarly, if you were to study Facebook's or Dropbox's actions you would quickly recognize their ability to grow and succeed. This growth and success reveals a history of entrepreneurial behavior at multiple levels within the two firms. In addition, many of the firms traded on the NASDAQ (the largest U.S. stock market with nearly 3,100 companies listed), such as Apple, Zynga, Facebook, and Amgen are commonly thought of as entrepreneurial firms.

As we mentioned, existing firms too can act entrepreneurially. In this sense, established firms with an orientation toward acting entrepreneurially practice **corporate entrepreneurship**.<sup>10</sup> All firms fall along a conceptual continuum that ranges from highly conservative to highly entrepreneurial. The position of a firm on this continuum is referred to as its **entrepreneurial intensity**.<sup>11</sup> As we noted, entrepreneurial firms are typically proactive innovators and are not averse to taking calculated risks. In contrast, conservative firms take more of a "wait and see" posture, are less innovative, and are risk averse.

One of the most persuasive indications of entrepreneurship's importance to an individual or a firm is the degree of effort undertaken to behave entrepreneurially. Firms with higher entrepreneurial intensity regularly look for ways to cut bureaucracy. For example, Virgin Group, the large British conglomerate, works hard to keep its units small and instill in them an entrepreneurial spirit. Virgin is one of the most recognized brands in Britain and is involved in businesses as diverse as airlines and music. In the following quote, Sir Richard Branson, the founder and CEO of Virgin, describes how his company operates in an entrepreneurial manner:

Convention . . . dictates that "big is beautiful," but every time one of our ventures gets too big we divide it up into smaller units. I go to the deputy managing director, the deputy sales director, and the deputy marketing director and say, "Congratulations. You're now MD [managing director], sales director and marketing director—of a new company." Each time we've done this, the people involved haven't had much more work to do, but necessarily they have a greater incentive to perform and a greater zeal for their work. The results for us have been terrific. By the time we sold Virgin Music, we had as many as 50 subsidiary record companies, and not one of them had more than 60 employees.<sup>12</sup>

## Why Do People Become Entrepreneurs?

The three primary reasons that people become entrepreneurs and start their own firms are to be their own boss, pursue their own ideas, and pursue financial rewards.

### LEARNING OBJECTIVE

2. Discuss three main reasons people decide to become entrepreneurs.

### Be Their Own Boss

The first of these reasons—being one's own boss—is given most commonly. This doesn't mean, however, that entrepreneurs are difficult to work with or that they have trouble accepting authority. Instead, many entrepreneurs want to be their own boss because either they have had a long-time ambition to own their own firm or because they have become frustrated working in traditional jobs. The type of frustration that some entrepreneurs feel working in conventional jobs is exemplified by Wendy DeFeudis, the founder of VeryWendy, a company that makes customized social invitations. Commenting on how her experiences

An entrepreneurial career is full of possibilities. These three young entrepreneurs are starting a graphic design business. They are passionate about website design, logo design, and business branding.



Pressmaster/Shutterstock

working for herself have been more satisfying than working for a large firm, DeFeudis remarked:

I always wanted to be my own boss. I felt confined by the corporate structure. I found it frustrating and a complete waste of time—a waste to have to sell my ideas to multiple people and attend all kinds of internal meetings before moving forward with a concept.<sup>13</sup>

Some entrepreneurs transition from a traditional job to owning their own business more gradually, as shown by a decision to initially operate their firm on a part-time basis. While this approach isn't possible in all situations, by starting a business part time individuals can gain valuable experience, tuck away the money they earn, and find out if they really like the business before deciding to leave their job. In some businesses, such as catering or financial planning, it takes time to build a client list. Some entrepreneurs will time their departure from their job with the point in time at which their client list is large enough and profitable enough to support a full-time business.<sup>14</sup>

## Pursue Their Own Ideas

The second reason people start their own firms is to pursue their own ideas.<sup>15</sup> Some people are naturally alert, and when they recognize ideas for new products or services, they have a desire to see those ideas realized. Corporate entrepreneurs who innovate within the context of an existing firm typically have a mechanism for their ideas to become known. Established firms, however, often resist innovation. When this happens, employees are left with good ideas that go unfulfilled.<sup>16</sup> Because of their passion and commitment, some employees choose to leave the firm employing them in order to start their own business as the means to develop their own ideas.

This chain of events can take place in noncorporate settings, too. For example, some people, through a hobby, leisure activity, or just everyday life, recognize the need for a product or service that is not available in the marketplace. If the idea is viable enough to support a business, they commit tremendous time

and energy to converting the idea into a part-time or full-time firm. In Chapters 2 and 3, we focus on how entrepreneurs spot ideas and determine if their ideas represent viable business opportunities.

Many entrepreneurs experience tremendous satisfaction when their entrepreneurial idea catches on, and they see the positive results it creates. An example is Marco Zappacosta, the founder of Thumbtack. Thumbtack is an online platform that allows people to quickly locate local service providers, such as photographers, house painters, and piano teachers. Zappacosta's insight at the time Thumbtack was founded in 2009 was that all across America there were local service providers struggling to find new clients, and ordinary people looking for service providers they could trust. Commenting on how Thumbtack solves both a big problem but also makes a difference in ordinary people's lives, Zappacosta remarked:

The macro of it (connecting people who need services with people who are willing to provide them) is a big problem and it's satisfying to work on big things that can have a huge impact. But then what (I) really like—you feel day to day is the stories of impacting individuals, it's the pest control guy in Brooklyn sending us flowers to say thank you for all the business that we're now sending him, or the busy mom who is sending pictures of her birthday party that she was able to throw with Thumbtack. That great and that's certainly a bigger part of the motivation that we feel.<sup>17</sup>

Since its inception, Thumbtack has helped millions of people connect with local service providers and over \$1 billion is exchanged through its platform each year.<sup>18</sup>

## Pursue Financial Rewards

Finally, people start their own firms to pursue financial rewards. This motivation, however, is typically secondary to the first two and often fails to live up to its hype. The average entrepreneur does not make more money than someone with a similar amount of responsibility in a traditional job. The financial lure of entrepreneurship is its upside potential. People such as Jeff Bezos of Amazon.com, Mark Zuckerberg of Facebook, and Larry Page and Sergey Brin of Google made billions of dollars building their firms. Money is also a unifier. Making a profit and increasing the value of a company is a solidifying goal that people can rally around. But money is rarely the primary motivation behind the launch of an entrepreneurial firm. Some entrepreneurs even report that the financial rewards associated with entrepreneurship can be bittersweet if they are accompanied by losing control of their firm. For example, Sir Richard Branson, after selling Virgin Records, wrote, "I remember walking down the street [after the sale was completed]. I was crying. Tears . . . [were] streaming down my face. And there I was holding a check for a billion dollars . . . If you'd have seen me, you would have thought I was loony. A billion dollars."<sup>19</sup> For Branson, it wasn't just the money—it was the thrill of building the business and of seeing the success of his initial idea.

## Characteristics of Successful Entrepreneurs

Although many behaviors have been ascribed to entrepreneurs, several are common to the successful ones. Those in new ventures and those who are already part of an entrepreneurial firm share these qualities, which are shown in Figure 1.1 and described in the following section.

### LEARNING OBJECTIVE

3. Identify four main characteristics of successful entrepreneurs.

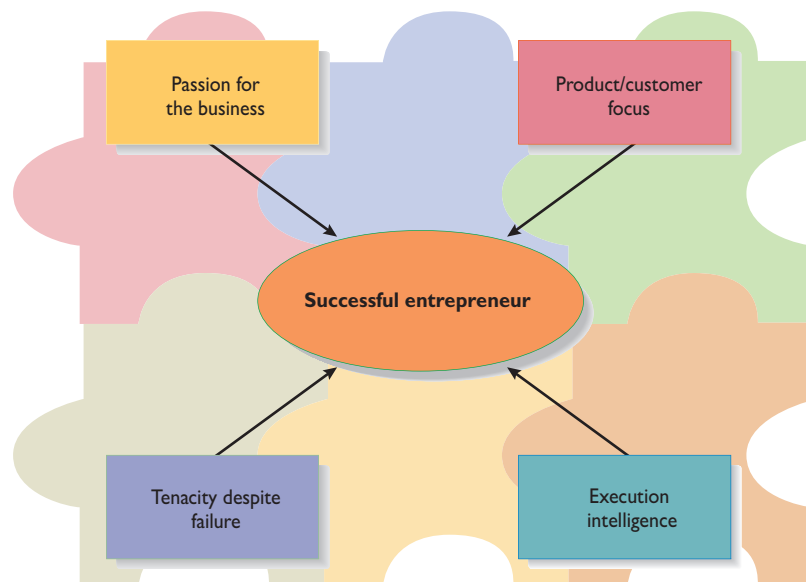


One of the most satisfying things about an entrepreneurial career is bringing products to life that enhance people's lives. This young woman is enjoying watching a music video provided by an online streaming music service started by two entrepreneurs.



luckybusiness/123RF

**FIGURE 1.1**  
Four Primary  
Characteristics  
of Successful  
Entrepreneurs



## Passion for the Business

The number one characteristic shared by successful entrepreneurs is a **passion for their business**, whether it is in the context of a new firm or an existing business. Frequently, it's the passion for an idea that gets a business going and keeps it going when times are tough. This sentiment was expressed by Patrick Whaley, the founder of Titin, a company that makes innovative weighted compression gear, which some athletes have found useful in training. "I'm passionate that there's a better way to train," Whaley said. "That's what inspired me to design and develop this product, and that's what keeps me going."<sup>20</sup> Recall that Kirsten Blowers, the owner of Riffraff and the subject company of the chapter's "Opening Profile" remains "passionate about her business" and that this passion influences her daily as she leads her businesses.

Making a difference in people's lives is the primary motivator behind many social enterprises, which are often started by people who set aside promising careers to pursue a social goal. This was the case with John Wood, who founded Room to Read and is the author of the book *Leaving Microsoft to Change the World*. Wood's deep passion to help children in the developing world caused him to start cashing in small amounts of Microsoft stock to buy books and build schools, even before he left the company. In excerpts from an interview published by *Forbes* magazine, Wood said:

During my travels, I met so many children in the poorest parts of the world, lacking access to school, books, and libraries, that I began cashing in small amounts of stocks to help them. Two hundred shares of Microsoft stock was enough to build an entire school in rural Nepal.<sup>21</sup>

Wood eventually left Microsoft to work on Room to Read full time. Since its inception in 2000, Room to Read has served over 10.7 million children, published 1,295 books, and delivered over 18 million books to young readers, all in developing parts of the world.<sup>22</sup>

Passion is particularly important for both for-profit and not-for-profit entrepreneurial organizations because although rewarding, the process of starting a firm or building either a profit-making corporation or a social enterprise is demanding. There are five primary reasons passion is important, as reflected in Table 1.2. Each of these reasons reflects a personal attribute that passion engenders. Removing just one of these qualities would make it much more difficult to launch and sustain a successful entrepreneurial organization.

A note of caution is in order here: While entrepreneurs should have passion, they should not wear rose-colored glasses. It would be a mistake to believe that all one needs is passion and anything is possible. It is important to be enthusiastic about a business idea, but it is also important to understand its potential flaws and risks. In addition, entrepreneurs should understand

**TABLE 1.2 Five Primary Reasons Passion Is Important for the Launch of a Successful Entrepreneurial Organization**

Reason Passion Is Important	Explanation
1. The ability to learn and iterate	Founders don't have all the answers. It takes passion and drive to solicit feedback, make necessary changes, and move forward. Needed changes won't always be obvious. Passion makes the search for the right answers invigorating and fun.
2. A willingness to work hard for an extended period of time	Commonly, entrepreneurs work longer hours than people with traditional jobs. You can only do that on a sustained basis if you're passionate about what you're doing.
3. Ability to overcome setbacks and "no's"	It's rare that an entrepreneur doesn't experience setbacks and hear many "no's" from potential customers, investors, and others while building an entrepreneurial business or a social enterprise. The energy to continue comes from passion for an idea.
4. The ability to listen to feedback on the limitations of your organization and yourself	You'll meet plenty of people along the way—some with good intentions and some without—who will tell you how to improve your organization and how to improve yourself. You have to be willing to listen to the people with good intentions and make changes if it helps. But you also have to be able to brush aside feedback from people with bad intentions without letting them get you down.
5. Perseverance and persistence when the going gets tough	Perseverance and persistence come from passion. As an entrepreneur, you'll have down days. Building an entrepreneurial organization is fraught with challenges. Passion is what provides an entrepreneur the motivation to get through tough times.

Source: Based on A. Sack, "Why Is Passion So Important to a Startup?" A Sack of Seattle blog, [https://asack.typepad.com/a\\_sack\\_of\\_seattle/2010/03/why-is-passion-so-important-to-a-startup.html](https://asack.typepad.com/a_sack_of_seattle/2010/03/why-is-passion-so-important-to-a-startup.html) (posted March 16, 2010, accessed May 22, 2011).

that the most effective business ideas take hold when their passion is consistent with their skills and is in an area that represents a legitimate business opportunity.

To illustrate the importance of passion, as well as other factors that are critical in determining a firm's success or failure, we include a boxed feature titled "What Went Wrong?" in each chapter. The feature for this chapter shows how Prim, a laundry and pick-up and delivery service, ultimately failed, in part because its founders were not able to remain passionate about their business idea.

## Product/Customer Focus

A second defining characteristic of successful entrepreneurs is a **product/customer focus**. This quality is exemplified by Steven Jobs, the late cofounder of Apple Inc., who wrote, "The computer is the most remarkable tool we've ever built . . . but the most important thing is to get them in the hands of as many people as possible."<sup>23</sup> This sentiment underscores an understanding of the two most important elements in any business—products and customers. While it's important to think about management, marketing, finance, and the like, none of those functions makes any difference if a firm does not have good products with the capability to satisfy customers.

This philosophy is affirmed by Alex Algard, the founder of WhitePages.com. WhitePages.com started in 1997 to provide consumers a free, accurate, and fast online alternative to telephone directory assistance. It is one of the most trusted and comprehensive sources for consumers to quickly find relevant, accurate contact information in North America. When asked how he was able to grow WhitePages.com from a one-person operation in 1997 to the multimillion-dollar company it is today, Algard's reply reflected not only his feelings about the importance of providing value to both users and customers but also how a company measures if the value is being successfully delivered:

The philosophy that we as a company have always stuck to is that everything we build has to provide real value to both our users and customers. The best measurement of whether or not we are successful at delivering something valuable is if our customers, advertisers in our case, are willing to pay.<sup>24</sup>

A product/customer focus also involves the diligence to spot product opportunities and to see them through to completion. The idea for the Apple Macintosh, for example, originated in the early 1980s when Steven Jobs and several other Apple employees took a tour of a Xerox research facility. They were astounded to see computers that displayed graphical icons and pull-down menus. The computers also allowed users to navigate desktops using a small, wheeled device called a mouse. Jobs decided to use these innovations to create the Macintosh, the first user-friendly computer. Throughout the two and a half years during which the Macintosh team developed this new product, it maintained an intense product/customer focus, creating a high-quality computer that is easy to learn, fun to use, and meets the needs of a wide audience of potential users.<sup>25</sup> Apple's early history, and in particular its commitment to building high-quality products, has been portrayed in several movies, including *Pirates of the Silicon Valley* (2005) and *JOBS* (2013).

Additional examples of product/market focus are provided in an excellent weekly podcast produced by National Public Radio (NPR) called "How I Built This." Each episode provides an in-depth interview with the founder of a well-known firm, and provides a complete overview of how the firm was built and won customers. Guests have included Joe Gebbie, the cofounder of Airbnb; Angie Hicks, the founder of Angie's List; Jane Wurwand, the founder of Dermalogica; and Yvon Chouinard, the founder of Patagonia.<sup>26</sup>

## WHAT WENT WRONG?

### Prim: How a Lack of Passion and Resolve Can Kill a Business

Prim's idea was to disrupt the laundry industry. A growing number of people in the United States are using laundry services to wash and fold their clothes. The problem with these services is that they are a hassle. In most instances customers have to bag their laundry, drop the bag or bags off at the laundry service, and then pick them up later. Many services have lines at the busiest times of the day, which result in drivers having to wait to drop off or pick up their laundry.

Prim launched in mid-2013, after passing through the prestigious Y Combinator business accelerator program earlier that year. Here's how Prim's laundry service worked. A customer bagged her/his laundry, and then went online to choose a pickup and delivery time. The price was \$25 for the first bag and \$15 for each additional bag. The bags would be picked up by a driver recruited by a third-party delivery service. (Rickshaw was the name of the delivery service in the city where Prim started.) Everything would be back, washed and folded, later that day or early the next day. No cash changed hands between the customer and the pickup or delivery drivers. Everything was paid for through Prim's website. Prim gained favorable press and early momentum. When it closed, it was handling 1,000 pounds of laundry a day from 40 clients and was growing. What went wrong?

Two things went wrong with Prim. First, once Prim got your clothes, it went from an innovative disruptor to an old-school company. It would take your clothes to a laundry service and utilize its wash and fold services. Prim negotiated volume discounts with several laundry services; but, the discounts were verbal, not written. What Prim didn't count on was the partnerships going sour. While the laundry services were initially receptive to working with Prim, they had their own delivery services and eventually saw Prim as siphoning off their customers and revenue. During its short history, Prim churned through three different laundry services.

The second thing that went wrong with Prim was a lack of passion and resolve on the part of its founders. Faced with the reality that working with local laundry services was a fragile business model, Prim's founders, Yin Yin Wu and Xuwen Cao, had a decision to make. Should they build or lease their own laundry service? This was a daunting prospect, given the hundreds of thousands of dollars necessary to build and staff a high-volume laundry wash and fold facility. Even more daunting was the prospect that this step would need to be repeated

in each new market Prim entered. After two months of deliberation, Wu and Cao pulled the plug. While they estimated that by constructing their own laundry service they could build a profitable business in 5 to 10 years, with revenues of \$10 million to \$15 million, it was a direction they simply did not want to pursue. Both were computer science students in college and had no direct experience in the laundry business. In an article published by *CNNMoney*, Garry Tan, a partner with Y Combinator, reflecting on why Wu and Cao closed Prim, said, "They didn't want to actually have to wash the laundry—they wanted to be the connector."

### Questions for Critical Thinking

1. Why is passion such a critical part of entrepreneurial success? Prim's founders were apparently passionate about building a company but not passionate about the laundry business specifically. In what ways is this combination problematic?
2. How could Prim's cofounders have better anticipated that laundry services would eventually see Prim as siphoning off their own business and be reluctant to work with them?
3. Rather than employ its own drivers to pick up and deliver laundry for its customers, Prim relied on the use of third-party delivery services. In what ways do you think this approach could have limited Prim's growth in other markets?
4. San Francisco, the city in which Prim launched, has several innovative laundry services. These services include LaundryLocker, where you drop your clothes in a public locker, Sfwash, a delivery service where you pay by the pound, and Sudzee, which requires special lockable bags. Spend some time studying LaundryLocker (<https://laundrylocker.com>), Sfwash (<https://sfwash.com>), and Sudzee (<https://sudzee.com>). Select the service that you think has the most potential and explain the rationale for your selection. Compare the service to Prim's approach.

Sources: J. P. Mangalindan, "Prim: Anatomy of a Folded Startup," *CNNMoney*, available at <https://tech.fortune.com/2014/01/22-prim-anatomy-of-a-folded-startup> (posted January 22, 2014, accessed March 14, 2014); J. Constine, "Prim Laundry Startup Throws in the Towel," *TechCrunch*, available at <https://techcrunch.com/2014/01/06/prim-laundry-shuts-down> (posted January 6, 2014, accessed March 14, 2014).



## Tenacity Despite Failure

Because entrepreneurs are typically trying something new, the possibility of failure exists. In addition, the process of developing a new business is somewhat similar to what a scientist experiences in the laboratory. A chemist, for example, typically has to try multiple combinations of chemicals before finding an optimal combination that can accomplish a certain objective. In a similar fashion, developing a new business idea may require a certain degree of experimentation before success is attained. Setbacks and failures inevitably occur during this process. The litmus test for entrepreneurs is their ability to persevere through setbacks and failures.

An example of the degree of tenacity it sometimes takes to launch a successful firm is provided by Jerry Stoppelman and Russel Simmons, the cofounders of Yelp, the popular online review site. The original idea for Yelp, which was founded in 2004, is that when people are looking for a new restaurant, dentist, or plumber they normally ask their friends for recommendations. Yelp was launched to give people the ability to e-mail a list of their friends and ask for a recommendation. The message included a link that allowed the friend to easily respond. The business plan didn't work. People started complaining that they were getting too many e-mail messages from friends who often didn't have a recommendation to provide. Yelp could have died at this point. Instead, Stoppelman and Simmons demonstrated the tenacity it often takes to keep a business alive. Curiously, the one aspect of Yelp's business plan that did work was the ability to write your own review—a feature that had been included by Stoppelman and Simmons almost as an afterthought. Rather than responding to a friend's request for a recommendation, people seemed to enjoy sharing information about their favorite restaurant or hair salon without being asked. In 2005, Yelp pivoted and revised its business plan. The new plan dropped the "e-mail your friend idea" and focused on providing a platform for people to proactively write reviews of local businesses. Today, Yelp is one of the most popular review sites on the Internet.

It's also important that entrepreneurs have sufficient tenacity to overcome personal obstacles along with professional ones. An example is Rick and Melissa Hinnant, the founders of Grace & Lace, a company that makes lacey leg warmers for women. In 2010, the couple experienced a tragedy when they lost an unborn child. While Melissa was in the hospital, she had a vision of crocheting her unborn child a blanket, which kindled in her a desire to sew. In the fall of 2011, she made her first pair of lacy leg warmers, and everywhere she went, people would stop her and ask her where she got them. That experience led to Grace & Lace, which is now a full-blown women's apparel company.<sup>27</sup> In 2013, Grace & Lace appeared on *Shark Tank*, and received an offer from Barbara Corcoran. Reflecting on the episode, and the tenacity that Rick and Melissa Hinnant exhibited overcoming the loss of a child, Corcoran said:

The best pitch I heard last season (Season 5), was from Grace & Lace, designers of lacy boot socks and leg warmers. When Melissa and Rick Hinnant burst onto the *Shark Tank* set, they exuded both the passion and street smarts that I know get all good entrepreneurs to the finish line. When they announced that they had \$800,000 in sales in their first year in business, they got the attention of all the sharks. But what got my attention was Melissa and Rick's backstory—a story of extreme resilience in the face of personal failure. The story they told proved that they were great entrepreneurs who knew how to take a hit and keep on ticking.<sup>28</sup>

## Execution Intelligence

The ability to fashion a solid idea into a viable business is a key characteristic of successful entrepreneurs. Commonly, this ability is thought of as **execution intelligence**.<sup>29</sup> In many cases, execution intelligence is the factor

that determines whether a start-up is successful or fails. An ancient Chinese saying warns, “To open a business is very easy; to keep it open is very difficult.”

The ability to effectively execute a business idea means developing a business model, putting together a new venture team, raising money, establishing partnerships, managing finances, leading and motivating employees, and so on. It also demands the ability to translate thought, creativity, and imagination into action and measurable results. As Jeff Bezos, the founder of Amazon.com, once said, “Ideas are easy. It’s execution that’s hard.”<sup>30</sup> For many entrepreneurs, the hardest time is shortly after they launch their firm. This reality was expressed by Jodi Gallaer, the founder of a lingerie company, who said, “The most challenging part of my job is doing everything for the first time.”<sup>31</sup>

To illustrate solid execution, let’s look at The Bouqs Company, an online flower delivery service, which is the subject of Case 11.1 later in the book. The Bouqs was cofounded in 2012 by Jason Tabis and J. P. Montufar, largely out of their frustration with the state of the online cut-to-order flower delivery industry. At that time, about 90 percent of the flowers sold in the United States came from either Colombia or Ecuador, and passed through multiple layers of distributors and wholesalers before they reached the end consumer. In addition, most orders that were placed online were fulfilled by a local florist, who may or may not have the exact flowers the customer ordered. Tabis and Montufar took on the industry, primarily by creating an advantage via execution intelligence. Rather than utilizing conventional distribution channels, they established direct relationships with flower growers in Columbia, Ecuador, Chile, and across the United States and Canada. Flowers ordered via The Bouqs website were cut the day they were ordered and were shipped directly from the farm, allowing the flowers to reach the customer in 2–4 days rather than 10–14. This shortened timeframe resulted in providing customers flowers that were fresher and more attractive than competing offerings. Other aspects of ordering flowers online were improved. The selection available was carefully curated, so as to not overwhelm the customer, and only flowers that were available were displayed. Pricing was transparent, with all selections priced at \$40 which included the product and shipping, with no hidden fees. In addition, The Bouqs only sourced flowers from farms that practiced sustainable, eco-friendly farming.<sup>32</sup> The result: The Bouqs is a thriving cut-to-order online flower delivery firm, with both consumer and corporate clients. It has raised over \$19 million in funding since 2012.<sup>33</sup>

One way early-stage companies learn execution intelligence is by participating in start-up incubator and accelerator programs. In each chapter, we provide a “Savvy Entrepreneurial Firm” feature that presents you with an example of a tool or technique that well-managed entrepreneurial firms use to improve their performance. In the nearby “Savvy Entrepreneurial Firm” feature, we discuss the benefits of participating in a start-up incubator or accelerator program.

## Common Myths About Entrepreneurs

There are many misconceptions about who entrepreneurs are and what motivates them to launch firms to develop their ideas. Some misconceptions develop because of the media covering atypical entrepreneurs, such as a couple of college students who obtain venture capital to fund a small business that they grow into a multimillion-dollar company. Such articles rarely state that these entrepreneurs are the exception rather than the norm and that their success is a result of carefully executing an appropriate plan to commercialize what inherently is a solid business idea. Indeed, the success of many of the entrepreneurs we study in each chapter’s “Opening Profile” is a result of carefully executing the different aspects of the entrepreneurial process. Let’s look at the most common myths and the realities about entrepreneurs.

### LEARNING OBJECTIVE

4. Explain the five common myths regarding entrepreneurship.

## SAVVY ENTREPRENEURIAL FIRM

### Start-Up Incubators and Accelerators: A Smart Way of Gaining Access to Mentors, Partners, Investors, and Other Critical Start-up Resources

The number of start-up incubator and accelerator programs in the United States continues to grow. Incubators are organizations that provide start-ups with shared operating space. They are sponsored by universities, city or county governments, or nonprofit organizations. Incubators also provide start-up businesses access to networking opportunities, mentors, and shared equipment. Incubators typically do not ask for equity from their participants and do not provide seed funding. They were very popular in the 1980s and remain an important part of the entrepreneurial ecosystem in many areas.

Accelerators are a newer concept. They are mostly for-profit organizations that offer a small amount of seed funding in exchange for small equity positions in the companies that participate in their programs. Most accelerator programs admit start-ups in cohorts, and put the start-ups through a 10- to 15-week intensive program. The accelerator typically offers free office space, perks such as free WiFi and web hosting, weekly meetings with mentors, and coaching on how to put together an effective investor pitch. The programs normally culminate with a “Demo Day” which provides the participants the opportunity to pitch their business ideas to a group of investors, mentors, and reporters. The better programs will have 200+ investors present at their Demo Days. The greatest advantage of getting into either an incubator or accelerator program is the mentorship opportunities they provide. They are also fertile places for entrepreneurs to meet potential cofounders, business partners, and investors.

The two most well-known accelerator programs are Y Combinator and TechStars. Y Combinator is located in the Silicon Valley. It provides \$120,000 in funding for 7 percent equity in each start-up it admits. Its participants are admitted in two, three-month sessions per year. It doesn’t offer office space. Instead, its program includes “office hours” where its start-up founders meet individually and in groups with Y Combinator partners for advice. Founders also participate in weekly dinners where top-flight guests from the Silicon Valley ecosystem speak to the founders. Y Combinator’s motto is “Make Something People Want.” TechStars is similar to Y Combinator in that it is a three-month program. It provides \$18,000 in funding for a 6 percent equity stake. Started in Boulder, CO, it has expanded and now has 26 programs that are organized around cities and themes. TechStars has offices in Atlanta, Chicago, Boulder, New York City, London, Seattle, and several other cities. Examples of the themes on which it focuses include Alexa (voice-powered technology), Internet of Things, music, and retail.

While admission to Y Combinator and TechStars is very competitive, there are a growing number of start-up incubators and accelerators in American cities. Most are accessible to hard-working start-up founders with promising business ideas. Many focus on a particular industry or sector, such as food, medical devices, software, mobile, or technology. To illustrate how prevalent start-up incubators

and accelerators have become, the following is a list of start-up incubators and accelerators in five American cities. You can identify the start-up incubators or accelerators in your area by speaking to local entrepreneurs or investors or by conducting a simple Google search.

*Capital Innovators* is a start-up accelerator located in St. Louis. It provides tech start-ups \$50,000 in seed funding, office space, access to weekly networking events, and follow-on funding opportunities.

*Excelerator Labs* is an intensive summer accelerator in Chicago. It selects 10 companies every spring to participate in a 13-week intensive summer program. The program is unique in that it attracts mentors from across the country who work with the participants on a one-on-one basis.

*Capital Factory* is an Austin, TX start-up incubator/accelerator and coworking space. It also hosts meet-ups and other events for aspiring entrepreneurs. Its accelerator program offers mentorship opportunities and connects its entrepreneurs with investors. In 2015, more than 50,000 entrepreneurs, programs, and designers were involved in Capital Factory programs and events.

*EnterpriseWorks* is part of the University of Illinois’ Research Park. It’s a start-up incubator that hosts early-stage tech firms that are commercializing research emerging from the university’s labs. It is a hub of activities and its clients include start-ups focused on fields such as chemical sciences, biotechnology, software development, and material sciences.

*Food-X* is a New York City-based business accelerator that is focused on launching food-related businesses. Its three-month program provides up to \$50,000 in seed funding, coworking space with other food entrepreneurs, and access to a world-class network of food companies, investors, and press. Each week, participants meet with 3–5 expert mentors to test, validate, and accelerate their food ventures.

### Questions for Critical Thinking

1. If you were starting a new venture, do you think you would benefit from participating in a business incubator or accelerator program? If so, what do you think the primary benefits would be?
2. Find an example of a start-up incubator or accelerator program at the college or university you are attending, in the town in which you live, or in a nearby city. Describe the program. Which one of the programs mentioned in this feature does it resemble the most?
3. If you have a promising business idea, what can you do while you’re in college to improve your chances of being admitted to a prestigious start-up incubator or accelerator program when you graduate?
4. Make a list of the types of mentors that a participant in a start-up incubator or accelerator program might encounter.

## Myth 1: Entrepreneurs Are Born, Not Made

This myth is based on the mistaken belief that some people are genetically predisposed to be entrepreneurs. The consensus of many hundreds of studies on the psychological and sociological makeup of entrepreneurs is that entrepreneurs are not genetically different from other people. This evidence can be interpreted as meaning that no one is “born” to be an entrepreneur and that everyone has the potential to become one. Whether someone does or doesn’t is a function of environment, life experiences, and personal choices.<sup>34</sup> However, there are personality traits and characteristics that are commonly associated with entrepreneurs; we list these in Table 1.3. These traits are developed over time and evolve from an individual’s social context. For example, studies show that people with self-employed parents are more likely to become entrepreneurs.<sup>35</sup> After witnessing a father’s or mother’s independence in the workplace, an individual is more likely to find independence appealing.<sup>36</sup> Similarly, people who personally know an entrepreneur are more than twice as likely to be involved in starting a new firm as those with no entrepreneur acquaintances or role models.<sup>37</sup> The positive impact of knowing an entrepreneur is explained by the fact that direct observation of other entrepreneurs reduces the ambiguity and uncertainty associated with the entrepreneurial process.

## Myth 2: Entrepreneurs Are Gamblers

A second myth about entrepreneurs is that they are gamblers and take big risks. The truth is, entrepreneurs are usually **moderate risk takers**, as are most people.<sup>38</sup> This finding is affirmed by The Hartford’s 2015 Small Business Success Study in which a total of 79 percent of the participants rated themselves as conservative rather than risky.<sup>39</sup> The idea that entrepreneurs are gamblers originates from two sources. First, entrepreneurs typically have jobs that are less structured, and so they face a more uncertain set of possibilities than managers or rank-and-file employees.<sup>40</sup> For example, an entrepreneur who starts a social network consulting service has a less stable job than one working for a state governmental agency. Second, many entrepreneurs have a strong need to achieve and often set challenging goals, a behavior that is sometimes equated with risk taking.

**TABLE 1.3 Common Traits and Characteristics of Entrepreneurs**

A moderate risk taker	Optimistic disposition
Persuasive	A networker
Promoter	Achievement motivated
Resource assembler/leverager	Alert to opportunities
Creative	Self-confident
Self-starter	Decisive
Tenacious	Energetic
Tolerant of ambiguity	A strong work ethic
Visionary	Lengthy attention span

### Myth 3: Entrepreneurs Are Motivated Primarily by Money

It is naïve to think that entrepreneurs don't seek financial rewards. As discussed previously, however, money is rarely the primary reason entrepreneurs start new firms and persevere. The importance and role of money in a start-up is put in perspective by Colin Angle, the founder and CEO of iRobot, the maker of the popular Roomba robotic vacuum cleaner. Commenting on his company's mission statement, Angle said:

Our, "Build Cool Stuff, Deliver Great Products, Have Fun, Make Money, Change the World" (mission statement) kept us (in the early days of the Company) unified with a common purpose while gut-wrenching change surrounded us. It reminded us that our goal was to have fun and make money. Most importantly, it reminded us that our mission was not only to make money, but to change the world in the process.<sup>41</sup>

Some entrepreneurs warn that the pursuit of money can be distracting. Media mogul Ted Turner said, "If you think money is a real big deal . . . you'll be too scared of losing it to get it."<sup>42</sup> Similarly, Sam Walton, commenting on all the media attention that surrounded him after he was named the richest man in America by *Forbes* magazine in 1985, said:

Here's the thing: money never has meant that much to me, not even in the sense of keeping score . . . . We're not ashamed of having money, but I just don't believe a big showy lifestyle is appropriate for anywhere, least of all here in Bentonville where folks work hard for their money. We all know that everyone puts on their trousers one leg at a time . . . . I still can't believe it was news that I get my hair cut at the barbershop. Where else would I get it cut? Why do I drive a pickup truck? What am I supposed to haul my dogs around in, a Rolls-Royce?<sup>43</sup>

### Myth 4: Entrepreneurs Should Be Young and Energetic

Entrepreneurial activity is fairly evenly spread out over age ranges. The recent age distribution of business owners, as reported in the Kauffman Index of Startup Activity, is shown in Table 1.4. As you see, the percentage of owners is quite evenly distributed across 4 major age categories. Not surprisingly, given this age distribution, the majority of business owners have work experience prior to launching a new venture. Although it is important to be energetic, investors often cite the strength of the entrepreneur (or team of entrepreneurs) as their most important criterion in the decision to fund new ventures.<sup>44</sup> In fact, a

**TABLE 1.4** Age Distribution of Business Owners

Age	Percentage of Business Owners
20–34	24.7
35–44	22.9
45–54	26.6
55–64	25.8

Source: R. W. Fairlie, A. Morelix, E. J. Reedy, and J. Russell, 2015 *The Kauffman Index of Startup Activity: National Trends*, available at [Kauffman\\_index-startup-activity-national-trends-2015-1.pdf](http://kauffman-index-startup-activity-national-trends-2015-1.pdf).



sentiment that venture capitalists often express is that they would rather fund a strong entrepreneur with a mediocre business idea than fund a strong business idea and a mediocre entrepreneur. What makes an entrepreneur “strong” in the eyes of an investor is experience in the area of the proposed business, skills and abilities that will help the business, a solid reputation, a track record of success, and passion about the business idea. The first four of these five qualities favor older rather than younger entrepreneurs.

## Myth 5: Entrepreneurs Love the Spotlight

Indeed, some entrepreneurs are flamboyant; however, the vast majority of them do not attract public attention. In fact, many entrepreneurs, because they are working on proprietary products or services, avoid public notice. Consider that entrepreneurs are the source of the launch of many of the 3,100 companies listed on the NASDAQ, and many of these entrepreneurs are still actively involved with their firms. But how many of these entrepreneurs can you name? Perhaps three or four? Most of us could come up with Jeff Bezos of Amazon.com, Mark Zuckerberg of Facebook, and maybe Larry Page and Sergey Brin of Google or Elon Musk of Tesla and SpaceX. Whether or not they sought attention, these are the entrepreneurs who are often in the news. But few of us could name the founders of Netflix, YouTube, or DIRECTV, even though we frequently use these firms’ services. These entrepreneurs, like most, have either avoided attention or been passed over by the popular press. They defy the myth that entrepreneurs, more so than other groups in our society, love the spotlight.

## Types of Start-Up Firms

As shown in Figure 1.2, there are three types of start-up firms: salary-substitute firms, lifestyle firms, and entrepreneurial firms.

**Salary-substitute firms** are small firms that yield a level of income for their owner or owners that is similar to what they would earn when working for an employer. Dry cleaners, convenience stores, restaurants, accounting firms, retail stores, and hairstyling salons are examples of salary-substitute firms. The vast majority of small businesses fit into this category. Salary-substitute firms offer common, easily available and not particularly innovative products or services to customers.

**Lifestyle firms** provide their owner or owners the opportunity to pursue a particular lifestyle and earn a living while doing so. Lifestyle firms include personal trainers, golf and tennis pros, owners of bed & breakfasts, and tour guides. These firms are not innovative, nor do they grow quickly. Commonly, lifestyle companies promote a particular sport, hobby, or pastime and may employ only the owner or just a handful of people.

**Entrepreneurial firms** bring new products and services to market. As we noted earlier, the essence of entrepreneurship is creating value and then disseminating that value to customers. In this context, **value** refers to worth, importance,

### LEARNING OBJECTIVE

- Describe the three types of start-up firms.



**FIGURE 1.2**

Types of Start-Up Firms



## PARTNERING FOR SUCCESS

### Partnering with College Students via Campus Ambassador and Campus Rep Programs

A novel way that start-ups spread the word about their businesses is to create “campus ambassador” or “campus rep” programs. Most campus ambassador and campus rep programs fall somewhere between an internship and a job. The programs vary. Some recruit students to promote their brand on campus through an assortment of events, programs, and social media. Others ask students to create content, such as YouTube videos, articles for a company’s main website, and Instagram photos of the company’s products being used on their campus. Students often find these programs to be a great way to build their résumés, get work experience, earn a little extra money, and get their foot in the door of an exciting company. Companies that run campus ambassador or campus rep programs are typically looking for students who (1) have upbeat personalities, (2) are effective communicators, (3) have in-depth knowledge and a love for the product, (4) have effective marketing skills, and (5) have the ability to provide insightful feedback and advice. Here are examples of three campus ambassador or campus rep programs and how they work.

**Apple.** Apple Campus Reps work directly with the company’s campus reps’ team to tailor an approach for evangelizing Apple products on their local campus. Activities include planning and conducting workshops on Apple products, creating and distributing flyers and other promotional materials, and running competitions and events that highlight creative uses of Apple software and hardware. Apple Campus Reps make roughly \$10 to \$11 an hour, and work up to 15 hours per week. You can apply for the Apple Campus Reps program online at [www.apple.com/education/campusreps](http://www.apple.com/education/campusreps).

**Flex Watches:** Flex Watches are colorful and flexible sport watches. The watches come in a variety of colors, and each color represents a different social or charitable cause. Ten percent of the purchase price of each watch is donated to its corresponding cause. The company’s campus rep program looks for energetic and socially minded students who want to represent Flex Watches on their campus. Campus

reps are charged with promoting the company’s products and charity partnerships to students, and earn cash and Flex Watches products for their efforts. Campus reps must be active users of both Facebook and Instagram. Applications are available at <https://flexwatches.com/campusreps>.

**Her Campus Media:** Her Campus Media is the number one online community for college women. College females are recruited to setup Her Campus Chapters on their local campus. The local chapters sign up campus correspondents, who create, edit, and upload content to their chapter’s website. The content focuses on six categories of interest to college females: style, beauty, health, love, life, and career. Local correspondents work with the company’s national team to organize Her Campus events on their campus. Her Campus targets college females who are interested in journalism, public relations, marketing, or entrepreneurship. Information about starting a Her Campus Chapter is available at [www.hercampus.com/start-your-own-my-campus-chapter](http://www.hercampus.com/start-your-own-my-campus-chapter).

Other companies that run well-regarded campus ambassador or campus rep programs include Chipotle, Victoria’s Secret, CBS Sports, Adobe, Amazon, Rent the Runway, Prezi, and Monster Energy Drink.

### Questions for Critical Thinking

1. As part of your college experience, do you think you would benefit from participating in a campus ambassador or campus rep program? Why or why not?
2. In what ways would participating in a campus ambassador or campus rep program help you prepare to own your own business someday?
3. Why do you think companies such as Apple, Flex Watches, and Her Campus Media sponsor campus ambassador or campus rep programs? How do the companies benefit?
4. What types of start-ups would benefit the most from starting campus ambassador programs?

or utility. Entrepreneurial firms bring new products and services to market by creating and then seizing opportunities. Dropbox, Facebook, and Uber are well-known, highly successful examples of entrepreneurial firms. Having recognized an opportunity, the entrepreneurs leading companies of this type create products and services that have worth, are important to their customers, and provide a measure of usefulness to their customers that they wouldn’t have otherwise.

One characteristic of entrepreneurial firms, which we explore throughout this book, is that they partner with other firms and organizations, often to obtain the boost they need to realize their full potential. In each chapter, look for the boxed feature titled “Partnering for Success,” which illustrates how entrepreneurial firms use partnerships to increase their chances for success. The feature in the first chapter of your book discusses how some firms partner with college students via campus ambassador and campus rep programs to spread the word about their business.

Next, we describe the newly emerging characteristics of today's entrepreneurs. You may be surprised to learn about the types of individuals who are choosing to become entrepreneurs! While studying these characteristics, think about people you know who are accurately described by these characteristics. Do you think any of these people will choose to become entrepreneurs?

## Changing Demographics of Entrepreneurs

Over the past 10 years, the demographic makeup of entrepreneurial firms has changed in the United States and around the world. Of the 27.9 million businesses in the United States,<sup>45</sup> women, minorities, and seniors own an increasingly larger number of them. This is an exciting development for the entrepreneurial sector of the U.S. economy. An area of concern is millennials. Although millennials (people 18–34 years old) express a high degree of interest in becoming entrepreneurs, a surprisingly low percentage of people in the millennial age range are choosing the entrepreneurial path. There are many exceptions to this trend, such as the young entrepreneurs featured at the beginning of each chapter of this book.

### LEARNING OBJECTIVE

6. Discuss the changing demographics of entrepreneurs in the United States.

## Women Entrepreneurs

While men are still more likely to start businesses than women, the number of women-owned businesses is increasing. According to a study commissioned by American Express OPEN, as of 2016, there were 11.3 million women-owned businesses in the United States. Very impressively, these businesses employ nearly nine million people and generate over \$1.6 trillion in annual sales. Between 2007 and 2016, the number of women-owned firms increased by 45 percent, compared to just a 9 percent increase among all businesses. As a result, over the past nine years, the number of women-owned businesses has grown at a rate five times faster than the national average.



These are the faces of the entrepreneurs of the future. Collectively they will include more women and will be more ethnically diverse than at any time in the past.

Women are now the majority owners of 38 percent of U.S. businesses, up from 29 percent in 2007. Of the 11.3 million women-owned firms, 44 percent are owned by minorities. This percentage, which has increased dramatically since 2002, includes 1.9 million women-owned firms owned by African Americans, 8.1 percent owned by Asian Americans, and 16.5 percent owned by Latinas.

The 10 states home to the greatest number of women-owned businesses are California, Texas, Florida, New York, Georgia, Illinois, Michigan, Ohio, North Carolina, and Pennsylvania. Women-owned firms can be found in every sector of the U.S. economy. Four sectors stand out, and these constitute roughly 6 in 10 women-owned firms (61 percent). These sectors are: Other Services (such as hair and nail salons and pet care businesses), Health Care and Social Assistance (such as child day care and home health care services), Professional/scientific/technical services (such as lawyers, accountants, and architects), and Administrative Support and Waste Management Services (such as office administrative support and travel agencies).<sup>46</sup>

The number of groups that support and advocate for women-owned businesses continues to increase. An example of these groups is the National Association of Women Business Owners ([www.nawbo.org](http://www.nawbo.org)), which provides a forum for women entrepreneurs to share their stories and support and encourage one another.<sup>47</sup>

## Minority Entrepreneurs

There has been a substantial increase in minority entrepreneurs in the United States. The most comprehensive statistics are reported by the Minority Business Development Agency ([www.mbda.gov](http://www.mbda.gov)). The most current data available for minority entrepreneurs is 2012, in contrast to the 2016 data available for women entrepreneurs. According to the data, there are eight million minority-owned firms in the United States—a 38 percent increase since 2007. This increase is encouraging. The average gross receipts for minority-owned firms was \$58,119, down slightly from 2007. The industry sectors in which minority-owned firms operate are: Healthcare and Social Assistance (13 percent), Administrative Support and Waste Management and Redemption (12 percent), Professional/scientific/technical services (10 percent), Construction (9 percent), Retail (8 percent), Transportation and Retailing (7 percent), Real Estate and Leasing (5 percent), and Other (37 percent). (Other is a catch-all for all remaining industries.)<sup>48</sup>

Similar to women entrepreneurs, an important factor facilitating the growth of minority entrepreneurs is the number of organizations that promote and provide assistance. Examples include the Latin Business Association, Black Business Association, The National Center for American Indian Enterprise Development, Asian Business Association, and the Minority Business Development Agency, which is part of the U. S. Department of Commerce.

## Senior Entrepreneurs

The number of seniors starting businesses is substantial and growing. According to the U.S. Small Business Administration (SBA) Office of Advocacy, the percentage of individuals age 62 and older starting a business increased from 4.2 percent in 1988 to 5.4 percent in 2015.<sup>49</sup> The SBA characterized the growth in senior entrepreneurs as healthy for the U.S. economy. This growth pattern is also no doubt welcomed by seniors who appreciate the challenge of starting a new business as a foundation for a new career.

The increase in senior entrepreneurs is attributed to a number of factors, including corporate downsizing, an increasing desire among older workers for more personal fulfillment in their lives, and growing worries among seniors that they need to earn additional income to pay for future health care services and

other expenses. Many people in the 60 and older age range have substantial business experience, financial resources that they can draw upon, and excellent vigor and health, which make them ideal candidates to start businesses in many industries. In addition, the steady increase in life expectancy means that Americans are not only living longer, but are living healthier longer, and are likely to remain engaged in either a job or an entrepreneurial venture longer in their lives than earlier generations.

## Millennial Entrepreneurs

A desire to pursue an entrepreneurial career is high among millennials. According to a Bentley University survey, 66 percent of millennials have a desire to start their own business, 37 percent would like to work for themselves, and 25 percent would like to own a company. While encouraging, these statistics don't fully reflect the direction entrepreneurial millennials are taking. Consider for example that in 2013, only 3.6 percent of all businesses in the United States were owned by someone under the age of 30.<sup>50</sup> A 2016 study by EY and EIG tackled the question of what is constraining young people from becoming entrepreneurs. The findings affirmed the gap uncovered by the Bentley University survey. Millennials overwhelmingly (78 percent) consider entrepreneurs successful and more than half have considered starting their own business. The biggest obstacles preventing them from acting on their entrepreneurial desires are lack of finances, lack of desire to start a business, fear of failure, and a lack of knowledge of the business start-up process.<sup>51</sup> Other factors may include the attractiveness of corporate jobs, student debt, lack of savings, and risk aversion.<sup>52</sup>

There are many forces at work encouraging millennials, in particular, to consider entrepreneurship as a career. More than 2,300 colleges and universities in the United States offer at least one course in entrepreneurship at the undergraduate or graduate level. Although the bulk of entrepreneurship education takes place within business schools, many other colleges and departments are offering entrepreneurship courses as well—including engineering, agriculture, law, hospitality management, and nursing. Additionally, the activities offered by a number of organizations are encouraging college students to consider becoming entrepreneurs. These organizations range from the Dorm Room Fund, which is a student-run venture fund, which invests in student-initiated start-ups, to Startup Weekend, which helps students organize teams and launch start-ups in 54 hours. A sample of these organizations is shown in Table 1.5. There are also resources available for non-college bound and/or non-college educated millennials who are considering an entrepreneurial career. For example, SBA Small Business Development Centers (SBDCs) across the United States are available to aspiring entrepreneurs. SBDC counselors provide encouragement and advice to people of all age ranges and offer a variety of free business consulting and training services.

## The Positive Effects of Entrepreneurship and Entrepreneurial Firms

Entrepreneurship's importance to an economy and the society in which it resides was expertly articulated in 1934 by Joseph Schumpeter, an Austrian economist who did the majority of his work at Harvard University. In his book *The Theory of Economic Development*, Schumpeter argued that entrepreneurs develop new products and technologies that over time make current products and technologies obsolete. Schumpeter called this process **creative destruction**. Because new products and technologies are typically better than those they replace and the availability of improved products and technologies increases consumer

### LEARNING OBJECTIVE

7. Discuss the positive effects of entrepreneurship and entrepreneurial firms on economies and societies.



**TABLE 1.5 Organizations that Help College Students Learn More about Entrepreneurship and/or Advance Their Business Ideas**

Organization	Description	Website Address
3-Day Startup	Offers a 3-day program that helps students kick-start companies and build entrepreneurial capabilities	<a href="http://3daystartup.org">http://3daystartup.org</a>
CEO (Collegiate Entrepreneurs' Organization)	Premier entrepreneurship network with chapters on more than 240 college campuses	<a href="http://www.c-e-o.org">www.c-e-o.org</a>
CollabFinder	This is a web platform that students across the country are using to team up on start-ups and other projects. A business student, for example, can use the platform to find an engineering student to collaborate on a business idea.	<a href="http://www.collabFinder.com">www.collabFinder.com</a>
College Startup	An independent start-up news site dedicated to covering entrepreneurial people, companies, and events emerging from college campuses	<a href="http://www.collegestartup.org">www.collegestartup.org</a>
Dorm Room Fund	This is a student-run venture fund that invests in student-initiated start-ups. It is backed by First Round Capital.	<a href="http://dormroomfund.com">http://dormroomfund.com</a>
Entrepreneurs' Organization	A global business network of 9,500+ business owners; runs the annual Global Student Entrepreneur Award program	<a href="http://www.gsea.org">www.gsea.org</a>
Startup Weekend	Startup weekends are 54-hour events during which developers, marketers, product managers, and start-up enthusiasts come together to share ideas, form teams, build products, and launch start-ups.	<a href="http://startupweekend.org">http://startupweekend.org</a>
VentureWell	A nonprofit organization that funds and trains faculty and student innovators to create new businesses	<a href="http://www.venturewell.org">www.venturewell.org</a>

demand, creative destruction stimulates economic activity. The new products and technologies may also increase the productivity of all elements of a society.<sup>53</sup>

The creative destruction process is initiated most effectively by start-up ventures that improve on what is currently available. Small firms that practice this art are often called “innovators” or “agents of change.” The process of creative destruction is not limited to new products and technologies; it can include new pricing strategies (e.g., Warby Parker in eyewear), new distribution channels (such as e-books for books), or new retail formats (such as IKEA in furniture and Whole Foods Market in groceries).

Now let's look more closely at entrepreneurship's importance.

## Economic Impact of Entrepreneurial Firms

For two reasons, entrepreneurial behavior has a strong impact on an economy's strength and stability.

**Innovation.** **Innovation** is the process of creating something new, which is central to the entrepreneurial process.<sup>54</sup> According to the SBA Office of Advocacy, small innovative firms are 16 times more productive than large innovative firms in terms of patents per employee. Small firms tend to be particularly innovative in certain industries, as measured by patent activity. For example, small firms account for more than 32 percent of patents in both smart grids and solar energy and 15 percent of patents in batteries and fuel cells.<sup>55</sup>

**Job Creation.** According to the SBA, small businesses create a substantial number of net new jobs in the United States. For example, firms with fewer than

500 employees created nearly two million of the roughly three million private sector jobs in 2014. More than seven million of the 11 million jobs created during the recent economic recovery in the United States were created by small firms. A key factor cited for the ability of small firms to create jobs is their skill when it comes to wisely and effectively deploying capital resources.<sup>56</sup>

A recent Kauffman Foundation study affirmed these numbers and provided additional insight. According to the study, it is not the size of a business that matters as much as its age. Companies less than one year old have created an average of 1.5 million jobs per year over the past 30 years. New and young companies also contribute to economic dynamism by injecting competition into markets and spurring innovation.<sup>57</sup>

## Entrepreneurial Firms' Impact on Society

Entrepreneurial firms' innovations have a dramatic impact on a society. Think of all the new products and services that make our lives easier, enhance our productivity at work, improve our health, and entertain us. For example, Amgen, an entrepreneurial firm that helped pioneer the biotechnology industry, has produced a number of drugs that have dramatically improved people's lives. An example is NEUPOGEN®, a drug, which decreases the incidence of infection in cancer patients who are undergoing chemotherapy treatment. In addition to improved health care, consider smartphones, social networks, Internet shopping, overnight package delivery, and digital photography. All these products are new to this generation, yet it's hard to imagine our world without them.

However, innovations do create moral and ethical issues with which societies are forced to grapple. For example, bar-code scanner technology and the Internet have made it easier for companies to track the purchasing behavior of their customers, a fact, which raises privacy concerns. Similarly, bioengineering has made it easier to extend the shelf life of many food products, but some researchers and consumers question the long-term health implications of bioengineered foods.

## Entrepreneurial Firms' Impact on Larger Firms

In addition to the impact that entrepreneurial firms have on economies and societies, they also positively impact the effectiveness of larger firms. For example, some entrepreneurial firms are original equipment manufacturers, producing parts that go into products that larger firms manufacture and sell. Thus, many exciting new products, such as smartphones, digital cameras, and improved prescription drugs, are not solely the result of the efforts of larger companies with strong brand names, such as Samsung, Apple, and Johnson & Johnson. They were produced with the cutting-edge component parts or research-and-development efforts provided by entrepreneurial firms.

The evidence shows that many entrepreneurial firms have built their entire business models around producing products and services that increase the efficiency and/or effectiveness of larger firms. For example, an increasing number of U.S. firms are competing in foreign markets. These initiatives often require firms to employ translators to help them communicate with their foreign counterparts. Entrepreneurial firms are sometimes founded to respond to larger firms' needs. This is the case with start-up firm SpeakLike, a company that created an online service, which provides real-time translation services for two or more people who speak different languages. The cost of this service is considerably below what it costs to employ human translators. A large percentage of SpeakLike's customers are large firms. Similarly, Box is an entrepreneurial startup that allows clients to store data files in the cloud. The majority of *Fortune* 500 companies are now Box subscribers.



## The Entrepreneurial Process

### LEARNING OBJECTIVE

8. Explain the entrepreneurial process.

The entrepreneurial process we discuss in this book consists of four steps:

**Step 1** Decision to become an entrepreneur

**Step 2** Developing successful business ideas

**Step 3** Moving from an idea to an entrepreneurial firm

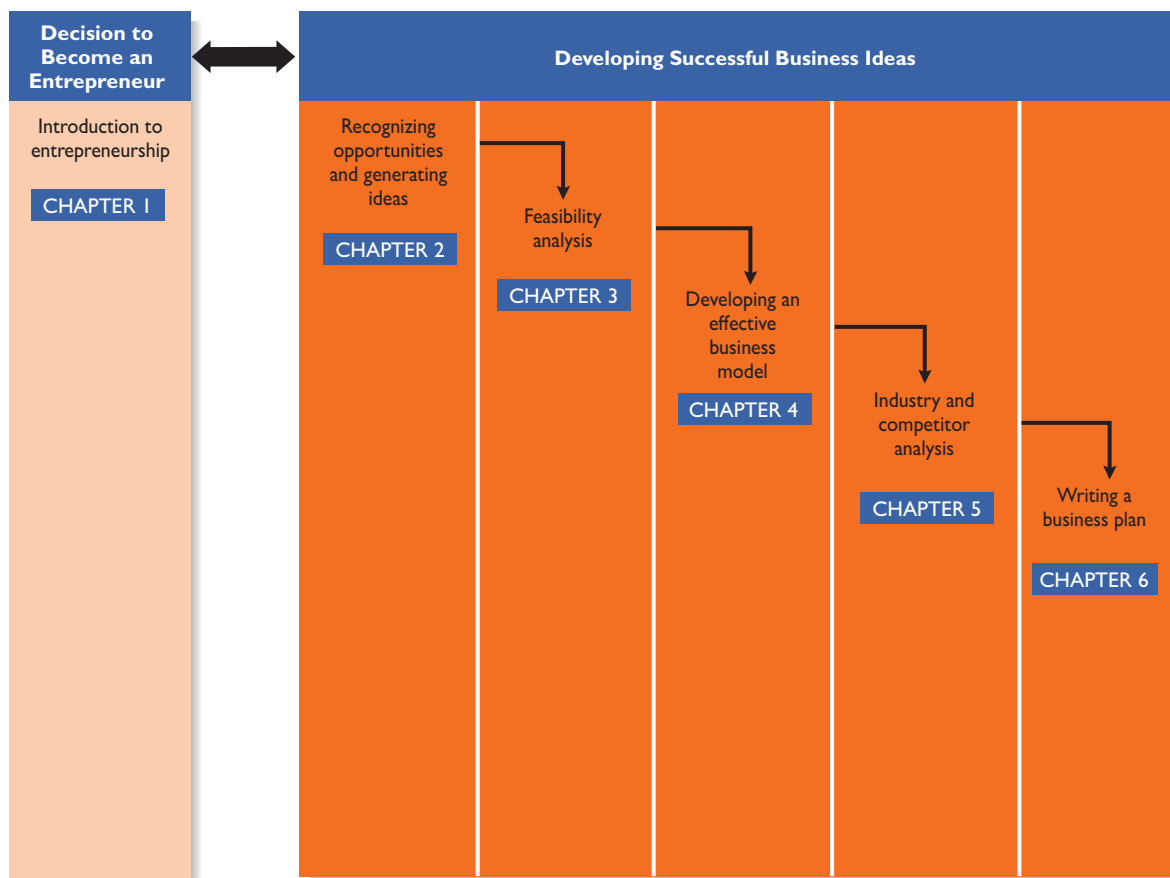
**Step 4** Managing and growing an entrepreneurial firm

Figure 1.3 models the entrepreneurial process you'll study while reading this text. This process is the guide or framework around which we develop this book's contents. The double-headed arrow between the decision to become an entrepreneur and the development of successful business ideas indicates that sometimes the opportunity to develop an idea prompts a person to become an entrepreneur. The four major stages of the entrepreneurial process and each stage's component parts (see Figure 1.3) are explained in the following sections.

### Decision to Become an Entrepreneur (Chapter 1)

As discussed earlier, people become entrepreneurs to be their own bosses, to pursue their own ideas, and to pursue financial rewards. Usually, a **triggering event** prompts an individual to become an entrepreneur.<sup>58</sup> For example, an individual may lose her job and decide that the time is right to start her own business or a person might receive an inheritance and for the first time in his life have the money to start his own company. Lifestyle issues may also trigger

**FIGURE 1.3**  
Basic Model of the  
Entrepreneurial Process

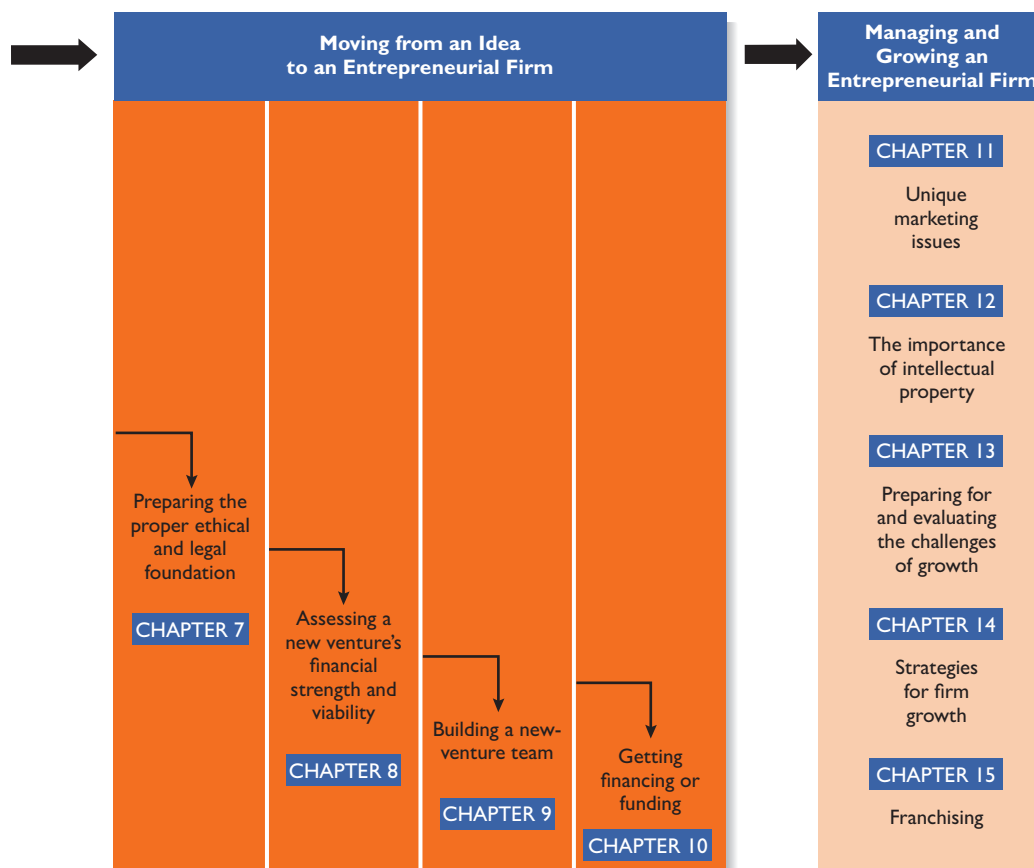


entrepreneurial careers. For example, a woman may wait until her youngest child is in school before she decides to launch her own entrepreneurial venture.

## Developing Successful Business Ideas (Chapters 2–6)

Many new businesses fail not because the entrepreneur didn't work hard but because there was no real opportunity to begin with. Developing a successful business idea includes opportunity recognition, feasibility analysis, the development of an effective business model, industry analysis, and writing a business plan. Chapter 2 takes a scientific look at how entrepreneurs recognize opportunities and describes how the opportunity recognition process typically unfolds. Chapter 3 focuses on the feasibility analysis: the way to determine whether an idea represents a viable business opportunity. Chapter 4 focuses on the important topic of developing an effective business model. A firm's **business model** is its plan or recipe for how it creates, delivers, and captures value for its stakeholders. Entrepreneurial firms need to have a crystal clear understanding of the issues concerned with creating, delivering, and capturing value if they are to be successful. Industry and competitor analysis is our concern in Chapter 5. Knowing the industry in which a firm will choose to compete is crucial to an entrepreneur's success. In Chapter 6, we describe how to write a business plan. A **business plan** is a written document that describes all the aspects of a business venture in a concise manner. It is usually necessary to have a written business plan to raise money and attract high-quality business partners. Some entrepreneurs are impatient and don't want to spend the time it takes to write a business plan.<sup>59</sup> This approach is usually a mistake. Writing a business plan

**FIGURE 1.3**  
Continued



forces an entrepreneur to think carefully through all the aspects of a business venture. It also helps a new venture establish a set of milestones that can be used to guide the early phases of the business rollout.

## Moving from an Idea to an Entrepreneurial Firm (Chapters 7–10)

The first step in turning an idea into reality is to prepare a proper ethical and legal foundation for a firm, including selecting an appropriate form of business ownership. These issues are discussed in Chapter 7. Chapter 8 deals with the important topic of assessing a new venture's financial strength and viability. Important information is contained in this chapter about completing and analyzing both historical and pro forma financial statements. Chapter 9 focuses on building a new-venture team. Chapter 10 highlights the important task of getting financing or funding and identifies the options a firm has for raising money.

## Managing and Growing an Entrepreneurial Firm (Chapters 11–15)

Given today's competitive environment, all firms must be managed and grown properly to ensure their ongoing success. This is the final stage of the entrepreneurial process.

Chapter 11 focuses on the unique marketing issues facing entrepreneurial firms, including selecting an appropriate target market, building a brand, and the four Ps—product, price, promotion, and place (or distribution). Chapter 12 examines the important role of intellectual property in the growth of entrepreneurial firms. More and more, the value of “know-how” exceeds the value of a company's physical assets. In addition, we will talk about protecting business ideas through intellectual property statutes, such as patents, trademarks, copyrights, and trade secrets.

Preparing for and evaluating the challenges of growth is the topic of Chapter 13. We'll look at the characteristics and behaviors of successful growth firms. In Chapter 14, we'll study strategies for growth, ranging from new product development to mergers and acquisitions. We conclude with Chapter 15, which focuses on franchising. Not all franchise organizations are entrepreneurial firms, but franchising is a growing component of the entrepreneurial landscape. When you finish studying these 15 chapters, you will have been exposed to all components of the entrepreneurial process—a process that is vital to entrepreneurial success.

## Developing Skills for Your Career

### LEARNING OBJECTIVE

9. Learn how understanding entrepreneurship and the entrepreneurial process can facilitate your career success.

In this chapter, we introduced you to the phenomenon known as entrepreneurship and described the entrepreneurial process as a path entrepreneurs can follow to be successful. As readers, some of you may not imagine that you would ever become an entrepreneur, others of you think you may develop an entrepreneurial venture at some time in the future while some of you may find the stories of the entrepreneurs discussed in the 15 chapters' “Opening Profile” features inspirational to the point that you are now contemplating launching an entrepreneurial venture as soon as possible. For all three types of readers, this book's contents address some of the “employability skills” that are critical to personal success within organizational settings. Let's see how this is so.

*Business Ethics and Social Responsibility.* From various sources, including the United Nations and corporate boards of directors, the need for and