

essentials of

# Entrepreneurship and Small Business Management



ninth edition

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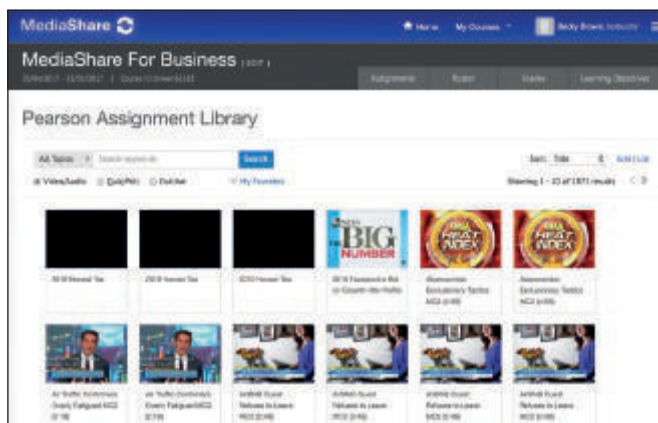
\*Source: 2016 and 2017 Student Survey, n 29

—Student, Robert Morris University

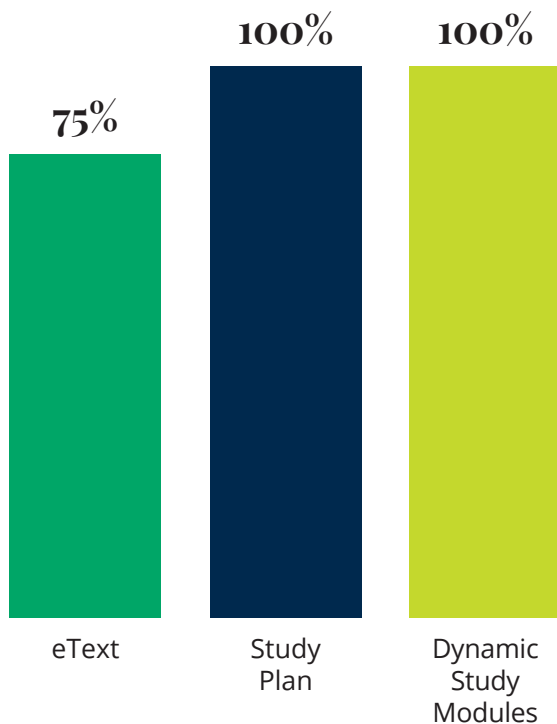
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# CASES

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Case #	Entrepreneur; Company Name	Related Topics	Chapter Reference
1	Bill, Melody, and Stephanie Cohen United Apparel Liquidators	<i>Industry: Discount retail clothing</i> <ul style="list-style-type: none"> <li>Developing a business strategy</li> <li>Bootstrap marketing and social media marketing</li> <li>Choosing the right location</li> </ul>	5 9 14
2	Matt Meeker, Henrik Werdelin, and Carly Strife Bark & Co.	<i>Industry: Subscription-based gift boxes for dogs</i> <ul style="list-style-type: none"> <li>Entrepreneurship</li> <li>Creativity and innovation</li> <li>Developing a business strategy</li> <li>Sources of financing</li> </ul>	1 3 5 15
3	Jim Telikis and Saban Lomac Cousins Maine Lobster	<i>Industry: Restaurant (food truck)</i> <ul style="list-style-type: none"> <li>Franchising</li> <li>Global expansion</li> </ul>	8 16
4	Saul Garlick ThinkImpact	<i>Industry: Social entrepreneurship</i> <ul style="list-style-type: none"> <li>Ethics and social responsibility</li> <li>Building a business plan</li> <li>Forms of ownership</li> <li>Sources of financing</li> </ul>	2 5 6 15
5	Art, Ilene, Joseph, and Aaron Stadlen Intertech Construction Corporation	<i>Industry: Interior design and construction</i> <ul style="list-style-type: none"> <li>Financial analysis and management</li> <li>Managing cash flow</li> <li>Family business and management succession</li> </ul>	12 13 17
6	Angela Crawford and Martin Rodriguez Bluffton Pharmacy—Part 1	<i>Industry: Pharmacy</i> <ul style="list-style-type: none"> <li>Financial analysis and management</li> </ul>	12
7	Angela Crawford and Martin Rodriguez Bluffton Pharmacy—Part 2	<i>Industry: Pharmacy</i> <ul style="list-style-type: none"> <li>Managing cash flow</li> </ul>	13
8	Max, Shelly, and Alfie Gitman Gitman Brothers	<i>Industry: Apparel (shirts and ties)</i> <ul style="list-style-type: none"> <li>Social media marketing</li> <li>E-commerce and Web site design</li> </ul>	9 10
9	James, Trish, and Palmer Higgins Seabreeze Property Services	<i>Industry: Landscape and snow removal</i> <ul style="list-style-type: none"> <li>Buying an existing business</li> <li>Sources of financing</li> </ul>	7 15
10	Jeff Braverman Nuts.com	<i>Industry: Snack foods</i> <ul style="list-style-type: none"> <li>Developing a business strategy</li> <li>Bootstrap marketing and social media marketing</li> <li>E-commerce</li> <li>Family business</li> </ul>	5 9 10 17



**Ninth Edition**

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To Cindy, whose patience is always tested during a writing project  
of this magnitude. Your love, support, and understanding  
are a vital part of every book.  
You are the love of my life.

—NMS

To Ann, for her wisdom and love. Your encouragement  
and support are the foundation for each new entrepreneurial  
adventure we take.

—JRC

“May your own dreams be your only boundaries.”

—The Reverend Purlie Victorious Judson,  
in *Purlie*, Broadway Theater, 1970

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# Preface

Entrepreneurship is a fast-growing and ever-changing discipline. People of all ages, backgrounds, and nationalities are launching businesses of their own and, in the process, are reshaping the world's economy. The purpose of this book is to open students' minds to the possibilities, the challenges, and the rewards of owning their own businesses and to provide the tools they will need to be successful if they choose the path of the entrepreneur. It is not an easy road to follow, but the rewards—both tangible and intangible—are well worth the risks. Not only may you be rewarded financially for your business ideas, but also like entrepreneurs the world over, you will be able to work at something you love!

## New to This Edition

This edition includes many new features that reflect this dynamic and exciting field of study.

- This edition features separate chapters on “Forms of Business Ownership” and “Buying an Existing Business.” In addition, we have reorganized the chapter on buying a business using a five-step process: the search stage, the due diligence stage, the valuation stage, the deal stage, and the transition stage. As members of the Baby Boom generation retire, the opportunities for you to buy a business are vast. This chapter covers the details of various valuation methods to help you determine the value of a business you might purchase.
- Almost every one of the real-world examples in this edition is new and is easy to spot because they are accompanied by an icon. These examples allow you to see how entrepreneurs are putting into practice the concepts that you are learning about in the book and in class. These examples are designed to help students remember the key concepts in the course. The business founders in these examples also reflect the diversity that makes entrepreneurship a vital part of the global economy.







wrestle with some of the ethical dilemmas that entrepreneurs face, including the controversial issues surrounding employers' responses to employees' postings on social media sites. Encouraging you to think about and discuss these issues now prepares you for making the right business decisions later.

- We have updated Chapter 10, "E-Commerce and the Entrepreneur," to reflect the multichannel approach that businesses use to meet their customers wherever and whenever they want to shop. This chapter also includes coverage of the latest search engine optimization techniques and the steps business owners can take to avoid becoming victims of cybercrime.
- This edition provides expanded and updated coverage of important topics such as using the Business Model Canvas to refine a business idea, attracting capital using crowdfunding, identifying the keys to selecting the ideal location for a business, developing a process for hiring the right employees, creating a company culture that inspires employees to achieve their full potential, and others.

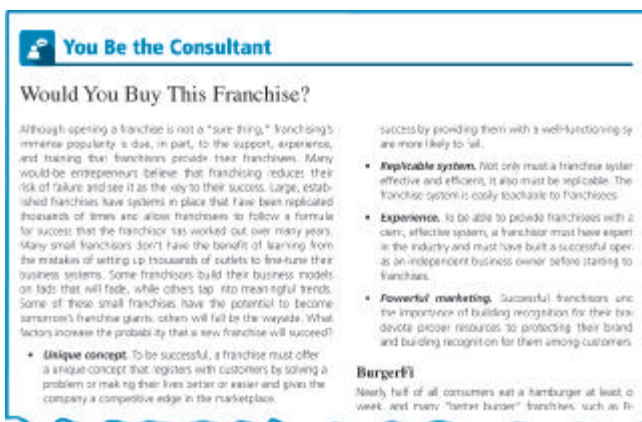


- We have integrated discussions of social media into almost every chapter, including how entrepreneurs use social media in a wide range of applications, ranging from attracting investors and screening potential franchisees to getting feedback from customers about a business idea and using it as a powerful, efficient marketing tool.

- We have updated the chapter on "Ethics and Entrepreneurship: Doing the Right Thing." This chapter provides students with a framework for making ethical decisions in business and with the opportunity to

- To emphasize the practical nature of this book, we have updated the content of the very popular "Hands On: How To . . ." feature, which selects a concept from each chapter and explains how to put it into practice in your own company. These features include topics such as how to "Make Social Media Work for Your Business," "Create a Culture of Creativity and Innovation," "Build a Successful Global Company," "Make Your Small Business a Great Place to Work," and many others.

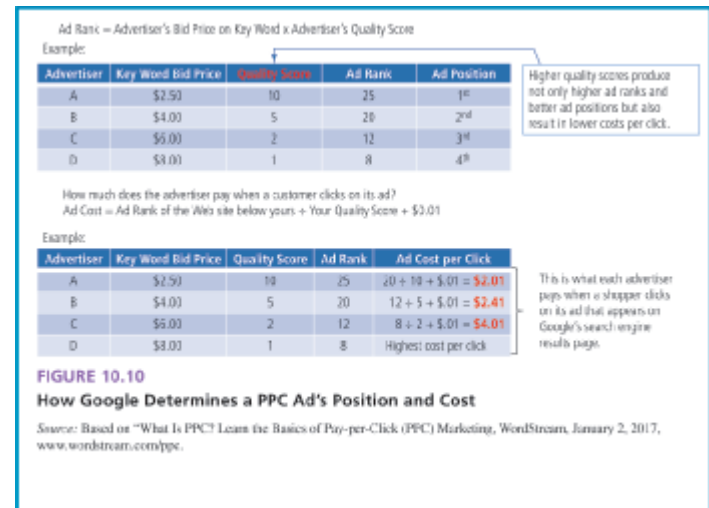
- Another feature that is popular with both students and professors is "You Be the Consultant." Every chapter contains at least one of these inserts describing a decision that an entrepreneur faces while asking you to play the role of consultant and to advise the entrepreneur on the best course of action. This feature includes the fascinating stories of how entrepreneurs came up with their business ideas (including Bill Mitchell, who began tailoring clothing for his college friends, which led him to start Billiam Jeans, a company that creates custom-made jeans for clients). Other topics explore deciding whether an entrepreneur should purchase one of the first outlets from a new franchise operation (John Rosatti and Lee Goldberg and BurgerFi), developing a strategy for providing "second mile service" to customers as a way of setting a company apart from its competition, understanding the psychology behind popular





pricing strategies, helping an entrepreneur choose a location for his company's next retail store (Fan Bi, cofounder of custom shirtmaker Blank Label), and using social media to market a small company's services (Jeff Platt and SkyZone, an indoor wall-to-wall trampoline park franchise). Each one poses a problem or an opportunity and includes questions that focus attention on key issues to help you hone your analytical and critical thinking skills.

- This edition includes 10 new brief cases that cover a variety of topics (see the case matrix that appears on the inside cover). All of the cases are about small companies, and most are companies that you can research online. These cases challenge students to think critically about a variety of topics that are covered in the text—from developing a business strategy and building a brand to protecting intellectual property and financing a business.
- The content of every chapter reflects the most recent statistics, studies, surveys, and research about entrepreneurship and small business management. Students will learn how to launch and manage their businesses the *right* way by studying the most current concepts in entrepreneurship and small business management.



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

This ninth edition of *Essentials of Entrepreneurship and Small Business Management* introduces students to the process of creating a new venture and provides them with the knowledge they need to launch a business that has the greatest chance for success. One of the hallmarks of every edition of this book has been a very practical, “hands-on” approach to entrepreneurship. We strive to equip students with the tools they will need for entrepreneurial success. By combining this textbook with professors’ expertise, students will be equipped to follow their dreams of becoming successful entrepreneurs.

## Solving Teaching and Learning Challenges

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



- Each chapter offers several insights from successful professionals, emphasizing concepts and valuable skills that students will explore in depth in the chapter.

- Each chapter includes a chapter summary (organized by learning objectives), discussion questions, and “Beyond the Classroom” questions that are designed to engage students and help them develop their analytical and critical thinking skills. On MyLab Entrepreneurship are flash cards for students to use to test their knowledge of key terms used throughout the book.

- Each chapter also includes a “Hands on: How to . . .” feature that provides students with practical insight into problems that entrepreneurs often face.

### Chapter Summary by Learning Objective

- Define the role of the entrepreneur in business in the United States and around the world.**
  - Entrepreneurship is thriving in the United States. For the current years of entrepreneurship is not limited to the United States; many nations around the globe are seeing similar growth in their small business sectors. A variety of competitive, economic, and demographic shifts have created a world in which “start-ups” is booming.
  - Capitalist societies depend on entrepreneurs to provide the drive and risk-taking necessary for the system to supply people with the goods and services they need.
- Describe the entrepreneurial profile.**
  - Entrepreneurs have some common characteristics, including a desire for responsibility, a preference for moderate risk, confidence in their ability to succeed, desire for immediate feedback, a high energy level, a future orientation, skill at organizing, and a desire to achieve more money. In a phrase, they are ambitious high achievers.
- Describe the benefits of entrepreneurship.**
  - Driven by their personal characteristics, entrepreneurs establish and manage small businesses to gain control over their time, make a difference in the world, become self-sufficient, reap potential profits, contribute to society, and do what they enjoy doing.
- Describe the drawbacks of entrepreneurship.**
  - Entrepreneurs also face certain disadvantages, including uncertainty of income, the risk of losing their investments (and more), long hours and hard work, a lower quality of life until the business gets established, high stress levels, and complete autonomy and responsibility.
- Explain the forces that are driving the growth of entrepreneurship.**
  - Several factors are driving the boom in entrepreneurship, including the personal of entrepreneurs

as factors, better entrepreneurial education, economic and demographic factors, a shift to a service economy, technological advances, more independent lifestyles, and increased international opportunities.

- Explain the cultural diversity of entrepreneurship.**
  - Several groups are leading the nation's drive toward entrepreneurship: young people, women, minorities, immigrants, part-timers, home-based business owners, family business owners, representatives, corporate executives, corporate dropouts, social entrepreneurs, and retired Baby Boomers.
- Describe the important role that small businesses play in the economy.**
  - The small business is at the heart of the nation's economic and social life.
- Put failure to rest.**
  - Entrepreneurs must learn to deal with failure. Failure is a necessary part of the entrepreneurial process.
- Explain the importance of networking.**
  - Entrepreneurs must build a network of contacts to help them succeed.

### Discussion Questions

- What advantages can an entrepreneur who buys a business gain over one who starts a business “from scratch”?
- How would you go about determining the value of the assets of a business if you were unfamiliar with them?
- Why do so many entrepreneurs run into trouble when they buy an existing business?
- Outline the stages involved in buying a business.
- What topics does the due diligence process address?
- Briefly outline the process of valuing a business using the adjusted earnings, the capitalized earnings, and the discounted future earnings approaches.
- What determines the bargaining zone between a business seller and a buyer?

- Explain the buyer's position in a typical negotiation for a business.
- Explain the seller's position in a typical negotiation for a business.
- What steps should a business buyer take to ensure a smooth transition after closing the deal to buy a business?
- One entrepreneur who recently purchased a business advises buyers to expect some surprises in the deal, to make sure they are well-prepared they may be. He says, “potential buyers must build some ‘wiggle room’ into their plans to buy a company. What steps can a buyer take to ensure that he or she has sufficient wiggle room?”

- Your dinner guests are to arrive in five minutes, and you've just discovered that you forgot to chill the wine! Wanting to maintain your reputation as the perfect host/ess, you must tackle this problem with maximum creativity. What could you do? Generate as many solutions as you can in five minutes working alone and then work with two or three students in a small group to brainstorm the problem.
- Work with a group of your classmates to think of as many alternative uses for the commercial television W/D-40 as you can. Remember to think “beyond” (generating a quantity of ideas) and *flexibly* (generating unconventional ideas).
- A Facebook group of more than 25,000 people is trying to convince Cadbury, the venerable British

confectioner (now owned by Kraft Foods), to produce a giant chocolate Cadbury Creme Egg that contains a filling made from fondant that resembles the yolk and white of a real egg. Currently, giant Cadbury chocolate eggs, which are about the size of an ostrich egg, are hollow, a great disappointment to fans of the company's smaller chocolate eggs that are filled with creamy white and yolk-colored fondant. A Cadbury spokesperson says that “creating a (chocolate) shell that is strong enough to contain the sheer weight of the fondant is technically challenging.” Use the creativity-enhancing techniques described in this chapter to develop potential solutions that would allow Cadbury to manufacture a giant Creme Egg.

### MICROMULTINATIONALS

small companies that operate globally from their inception.

- Select all
- bootstrapping
- cloud computing
- copreneurs
- entrepreneur
- family-owned business
- gazelles
- micromultinationals
- necessity entrepreneurs
- opportunity entrepreneurs
- serial entrepreneurs

CLEAR ALL LEARNED TERMS

STUDY NOW PRINT

### Hands On . . . How To

#### Use Social Media to Market Your Business

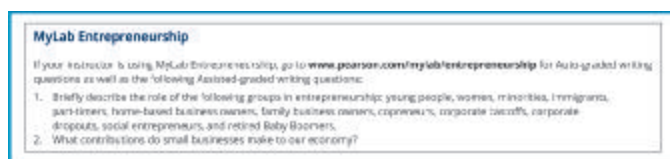
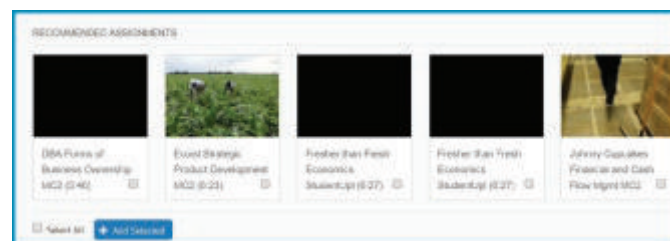
The typical city of consumer now spends an average of 1 hour per day on social media. Each day an average of 100 million people use social media. In addition, 75 percent of online shoppers use social media (Facebook, YouTube, Twitter, and Pinterest are the most popular apps), and more than one-third of online shoppers say that social media has influenced their purchases. Social media apps now allow users to “shop now” and “buy now” features that enable them to make purchases directly from the app. In fact, nearly one-fourth of online shoppers have purchased a product on a social media network. Clearly, social media represents a tremendous marketing opportunity for small businesses; however, only 27 percent of small businesses have a social media presence. The accompanying graphic shows how these small businesses put social media tools to work for their companies.

At Sky Zone, an indoor, full-to-wallampoline park, fun, fitness, and social media are a natural fit. Sky Zone has 127 locations in the United States and 17 locations in other countries. Social media marketing emerged organically. CEO Jeff Rott says the company noticed that customers were posting pics to Sky Zone locations on Twitter, so the company joined in the conversation and posted specific offers, such as “bring the people to Sky Zone, and we'll give you a free pass.” Sky Zone also launched the Twitter language #WhatWeDoAtSkyZone to engage customers of all ages and to show people how much fun a Sky Zone adventure can be through photos, videos, and more. Rott was inspired to see how many people posted photos of their

#### How Small Businesses Use Social Media

Social Media Platform	Percentage of Small Businesses Using It
Facebook	81%
Twitter	58%
LinkedIn	58%
YouTube	48%
Instagram	29%
Other social media	20%

- This edition once again emphasizes the importance of conducting a feasibility analysis and creating a business plan for a successful new venture. Chapter 4, “Conducting a Feasibility Analysis and Designing a Business Model,” offers comprehensive coverage of how to conduct a feasibility study for a business idea and then how to create a sound business model for the ideas that pass the feasibility test. This content will enable students to avoid a common mistake that entrepreneurs make: failing to define and test a viable business model *before* they launch their businesses.
- This edition features an updated, attractive, full-color design and a layout that includes an in-margin glossary and learning objectives and is designed to be user friendly. Each chapter begins with learning objectives, which are repeated as in-margin markers within the chapter to guide your students as they study. Attention-grabbing graphics help visually-oriented students learn more effectively.
- Chapter 3, “Inside the Entrepreneurial Mind: From Ideas to Reality,” explains the creative process entrepreneurs use to generate business ideas and to recognize entrepreneurial opportunities. This chapter helps students learn to think like entrepreneurs.
- Chapter 10, “E-Commerce and the Entrepreneur,” serves as a practical guide to using the Internet as a marketing and business tool and offers helpful advice for engaging successfully in mobile commerce. The Internet will be at the core of many of the businesses students will start, and they must have a solid understanding of the pitfalls to avoid and how to build a successful e-commerce strategy.
- Chapter 14, “Sources of Financing: Equity and Debt,” gives students a useful overview of the various financing sources that are available to entrepreneurs with plenty of practical advice for landing the financing they need to start or grow a business. In the difficult search for capital, many entrepreneurs take the first financing that becomes available, even though it often proves to be a poor choice. This chapter enables students to identify multiple sources of financing and evaluate the ones that are best for their particular situations.
- On MyLab Entrepreneurship, MediaShare for Business provides a robust video library and a powerful interface that help you connect course concepts to the business world.
- On MyLab Entrepreneurship, students can complete Auto-graded and Assisted-grading writing questions that cut down on your grading time so you can spend more time teaching.



## MyLab Entrepreneurship

### Reach every student with MyLab

MyLab is the teaching and learning platform that empowers you to reach *every* student. By combining trusted author content with digital tools and a flexible platform, MyLab personalizes the learning experience and improves results for each student. Learn more at MyLab Entrepreneurship.



## Deliver trusted content

You deserve teaching materials that meet your own high standards for your course. That's why we partner with highly respected authors to develop interactive content and course-specific resources that you can trust—and that keep your students engaged.

## Empower each learner

Each student learns at a different pace. Personalized learning pinpoints the precise areas where each student needs practice, giving all students the support they need—when and where they need it—to be successful.

## Teach your course your way

Your course is unique. So whether you'd like to build your own assignments, teach multiple sections, or set prerequisites, MyLab gives you the flexibility to easily create *your* course to fit *your* needs.

## Improve student results

When you teach with MyLab, student performance improves. That's why instructors have chosen MyLab for over 15 years, touching the lives of over 50 million students.

## Developing Employability Skills

In a recent survey by the Cooperative Institutional Research Program, 85 percent of college freshmen say that the main reason they decided to go to college is to secure a better job when they graduate. Whether you plan to pursue a career in entrepreneurship or some other field, the lessons you learn in your entrepreneurship course and from this book will help you secure a better job because the principles of entrepreneurship apply to *every* avenue of life. Whether you choose to start your own businesses or work for someone else in a for-profit or nonprofit organization, the skills you will learn in this course with the help of this book will be extremely valuable to you. Recent surveys show that employers value the following skill sets in the people they want to hire, and your course and this book will help you develop and enhance your abilities in these areas:

- **Critical Thinking and Problem Solving.** Every successful entrepreneur must engage in critical thinking and problem solving. Launching and running a successful company is a perpetual exercise in these areas. In this book, you can hone your critical thinking and problem-solving skills by tackling the “You Be the Consultant” and the “Beyond the Classroom” features that appear in every chapter. In addition, if one of the course requirements is to prepare a business plan, you will learn firsthand how to think critically and solve problems.

### You Be the Consultant

#### College: The Ideal Place to Launch a Business

For growing numbers of students, college is not just a time of learning, partying, and growing into going adulthood; it is fast becoming a place for building a business. Today, more than 1,300 colleges and universities offer courses in entrepreneurship and small business management, and many of them have trouble meeting the demand for these classes. Today, entrepreneurship has become a mainstream activity on college campuses around the globe. Greater numbers of students are pursuing careers in entrepreneurship and see their college experience as an opportunity to get an early start not only in studying entrepreneurship but also by putting what they learn into practice. Bill Aulet, head of the Martin Trust Center for MIT Entrepreneurship, says that faculty members who teach entrepreneurship must nurture the spirit of a pirate in their students while teaching them how to execute their start-up plans with the precision of a Navy SEAL. In addition to regular classroom courses, colleges increasingly are building on various interventions in their entrepreneurship programs, including internships with start-ups, consulting jobs with small businesses, mentoring relationships with other entrepreneurs, networking opportunities with potential investors, and participation in business plan competitions. Alex R. Cohen, the dean of the graduate program at Babson College, says that entrepreneurial education is a contact sport, and many colleges are adding boot camp-like courses to their curricula. As the following examples prove, many college students expect to apply

and coaches often overlook talented athletes, who get only a handful of scholarship offers. That was the position that Samantha Weber found herself in during her last year of high school. Although things worked out well for Weber, who enrolled in Grove City College in Grove City, Pennsylvania, where she played varsity soccer for four years, the student-athlete decided to do something to help improve the recruiting process. During her senior year at Grove City College, while playing soccer and taking a full schedule of classes, Weber, just 21, created an athletic recruiting app, *ProRecruiser*, that connects high school athletes and college coaches at showcase tournaments. Student-athletes create their own profiles using the app, and when college coaches check in at a tournament, they have access to every player's profile and can use a search function to find athletes who fit a particular set of characteristics. *ProRecruiser* was one of only nine start-ups recently accepted into IgniteNY, a five-day-long leading business accelerator. Weber already has raised more than \$25,000 in private financing and has attracted a “hub of elite” group of advisors, including her older sister, Alexa Andreogovici, founder of Footspotting, a company that Quantifiable recently bought for \$14 million.

**FlashNote**  
Students Jonathan Chen (University of Maryland), Timothy

- **Communication Skills.** Successful entrepreneurs are good communicators. This book and the assignments you complete as part of the class will enhance your written and verbal communication skills. As part of entrepreneurs' search for capital, they must create well-written, coherent business plans and pitch their ideas to potential lenders and investors. Chapter 5, “Building a Solid Strategic Plan and Crafting a Winning Business Plan,” teaches you how

to write a plan that not only will help you build successful businesses but also will convince potential lenders and investors to put up financing for them. This chapter also explains how to make a successful business plan presentation. If the class involves developing a business plan (and perhaps participating in a business plan competition), you will learn important written and oral communication skills.

### Beyond the Classroom . . .

1-15. Choose an entrepreneur in your community and interview him or her. What's the “story” behind the business?

1-16. How well does the entrepreneur fit the entrepreneurial profile described in this chapter?

1-17. What advantages and disadvantages does the entrepreneur see in owning a business?

1-18. What advice would he or she offer to someone considering launching a business?

1-19. Select one of the categories under the section “The Cultural Diversity of Entrepreneurship” in this chapter and research it in more detail. Find examples of business owners in that category and prepare a brief report for your class.

1-20. Search through recent business publications or their Websites (especially those focusing on small companies, such as *Jac*, and *Entrepreneur*) and find an example of an entrepreneur, past or present, who exhibits the entrepreneurial spirit of striving for success in the face of failure. Prepare a brief report for your class.

- **Teamwork.** Research shows that businesses started by multiple founders have higher success rates than those started by solo entrepreneurs. Even if you choose to start businesses on your own, you will learn very quickly to rely on the help of other people to build it. In other words, you will learn the power of teamwork and collaboration. Chapter 17, “Building a New Venture Team and Planning for the Next Generation,” will help you learn these skills.
- **Leadership.** One of an entrepreneur’s most important skills is *leadership*. Effective leaders create a vision for their companies, convince other people to believe in and commit to it, develop a plan to implement the vision, and sustain the effort to accomplish it. Chapter 17, “Building a New Venture Team and Planning for the Next Generation,” explains the behavior of successful leaders. Building a company will test and improve your leadership skills.
- **Creativity.** Whatever their business, employers are seeking creative talent. In Chapter 3, “Creativity and Innovation: Keys to Entrepreneurial Success,” you will learn about the creative process and how to enhance both your personal creativity and the creativity of the people in your business. Throughout this book and course, you will experience the incredible creativity that entrepreneurs demonstrate.
- **Ethics and Social Responsibility.** One of a company’s most valuable assets is its reputation. A company’s reputation is critical to its success, but it also is quite fragile. One employee acting in an unethical fashion can destroy a company’s good reputation. Employers seek employees in whom they can have confidence to do the right thing when faced with an ethical dilemma. In Chapter 2, “Ethics and Social Responsibility: Doing the Right Thing,” you will learn basic principles of ethics and social responsibility. Often, entrepreneurs and employees fall into ethical traps that are cloaked in the garb of mundane decisions. This chapter will help you avoid these traps by making you aware of the issues and how to address them.

You may choose to use these skills in your own businesses or in someone else’s business or nonprofit organization; either way, these skills are essential to your success. Moreover, it is only through the aggregate of your educational experiences that you will have the opportunity to develop many of these skills that employers have identified as critical to success in the workplace. As you can see, in this course, and specifically in this book, you will have the opportunity to develop and implement these skills.

#### The Pitch: Making the Business Plan Presentation

Entrepreneurs who are informed and prepared when requesting a loan or an investment impress lenders and investors. When entrepreneurs try to secure funding from lenders or investors, the written business plan also often provides the opportunity to meet face-to-face. In recent years, some investors have moved away from requiring the submission of a formal business plan and instead have based their interest on the entrepreneur’s presentation of the business model. However, even in these situations, sound planning is required.

#### Leadership: An Essential Part of an Entrepreneur’s Job

To be successful, an entrepreneur must assume a wide range of roles, tasks, and responsibilities, but none is more important than the role of leader. Some entrepreneurs are successful in assuming this role, but they must learn to be effective leaders if their companies are to grow and reach their potential. Leadership is the process of influencing and inspiring others to work to achieve a common goal and then giving them the power, the incentive, and the freedom to achieve it. Without leadership ability, entrepreneurs—and their companies—never rise above mediocrity. Entrepreneurs can learn to be effective leaders, but the task requires education, discipline, and hard work. In the past, business owners often relied on an autocratic management style, one built on command and control. Today’s workforce is more knowledgeable, has more options, and is more skilled and, as a result, expects a different, more sophisticated style of leadership. Millennials, the 80 million Americans born between 1981 and 1997, now make up nearly 35 percent of the U.S. workforce and demand a more open, participative, inclusive, and flexible leadership style.<sup>1</sup> Leadership is no less

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This title is available as an eBook and can be purchased at most eBook retailers.

*Essentials of Entrepreneurship and Small Business Management*, 9/e, has stood the test of time and contains a multitude of both student- and instructor-friendly features. We trust that this edition will help the next generation of entrepreneurs to reach their full potential and achieve their dreams of success as independent business owners. It is their dedication, perseverance, and creativity that keep the world's economy moving forward.

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## Special Note to Students

We trust that this edition of *Essentials of Entrepreneurship and Small Business Management* will encourage and challenge you to fulfill your aspirations as an entrepreneur and to make the most of your talents, experience, and abilities. We hope that you find this book to be of such value that it becomes a permanent addition to your personal library. We look forward to the day when we can write about your entrepreneurial success story on these pages.

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# 1

## The Foundations of Entrepreneurship



Dmitry Tolipov/123RF

### Learning Objectives

**On completion of this chapter, you will be able to:**

1. Define the role of the entrepreneur in business in the United States and around the world.
2. Describe the entrepreneurial profile.
- 3-A. Describe the benefits of entrepreneurship.
- 3-B. Describe the drawbacks of entrepreneurship.
4. Explain the forces that are driving the growth of entrepreneurship.
5. Explain the cultural diversity of entrepreneurship.
6. Describe the important role that small businesses play in our nation's economy.
7. Put failure into the proper perspective.
8. Explain how an entrepreneur can avoid becoming another failure statistic.
9. Discover how the skills of entrepreneurship, including critical thinking and problem solving, written and oral communication, teamwork and collaboration, leadership, creativity, and ethics and social responsibility, apply to every career choice and every avenue of life.

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## LO1

Define the role of the entrepreneur in business in the United States and around the world.

## The World of the Entrepreneur

Welcome to the world of the entrepreneur! Despite economic swings, entrepreneurship is thriving in nearly every part of the world. Globally, nearly one in eight adults is actively engaged in launching a business.<sup>1</sup> In the United States alone, entrepreneurs launch more than 6.6 million businesses annually.<sup>2</sup> These people, who come from diverse backgrounds, are realizing that Great American Dream of owning and operating their own businesses. Some of them have chosen to leave the security of the corporate hierarchy in search of independence, others have been forced out of large corporations as a result of downsizing, and still others have from the start chosen the autonomy that owning a business offers. The impact these entrepreneurs make on the nation's economy goes far beyond their numbers, however. The resurgence of the entrepreneurial spirit they are spearheading is the most significant economic development in recent business history. These heroes of the business world are introducing innovative products and services, pushing back technological frontiers, creating new jobs, opening foreign markets, and, in the process, driving the U.S. economy.

Entrepreneurs, once shunned as people who could not handle a “real” job in the corporate world, now are the celebrities of the global economy. According to the Global Entrepreneurship Monitor, a global study of entrepreneurial activity across 60 nations, 68 percent of working adults around the world perceive entrepreneurs as having high status.<sup>3</sup> These entrepreneurs create companies, jobs, wealth, and innovative solutions to some of the world's most vexing problems, from relief for sore feet to renewable energy sources. “The story of entrepreneurship entails a never-ending search for new and imaginative ways to combine the factors of production into new methods, processes, technologies, products, or services,” says one government economist who has conducted extensive research on entrepreneurship's impact.<sup>4</sup> In short, small business is “cool,” and entrepreneurs are the rock stars of the business world.

One important indicator of the popularity of entrepreneurship is the keen interest expressed by young people in creating their own businesses. Globally, the highest rates of entrepreneurial activity are among people between the ages of 25 and 34, but entrepreneurship is the desired career path for many people who are still in college.<sup>5</sup> According to a recent study of global entrepreneurship, 65 percent of college students around the world aspire to be entrepreneurs, 27 percent of them immediately after graduation and 38 percent after gaining experience working for someone else. In the United States, 59 percent of college students in the survey expressed a desire to run their own businesses.<sup>6</sup> Although the percentage of people in the United States under 30 who own a share of a private company has declined to 3.6 percent from 6.1 percent in 2010, entrepreneurship remains the preferred career path for many young people (some of them while they are still in school), a more enticing option than joining the ranks of the pin-striped masses in major corporations.<sup>7</sup> When many young people hear the phrase “corporate America,” they do not think of career opportunities; instead, negative images of the corporate world from the film *Office Space* come to mind. Others choose entrepreneurship out of necessity. The Kauffman Foundation reports that nearly one out of five entrepreneurs in the United States start businesses of their own because they cannot find jobs elsewhere.<sup>8</sup> The bottom line is that whatever drives your career choices, the probability that you will become an entrepreneur at some point in your life is quite high!



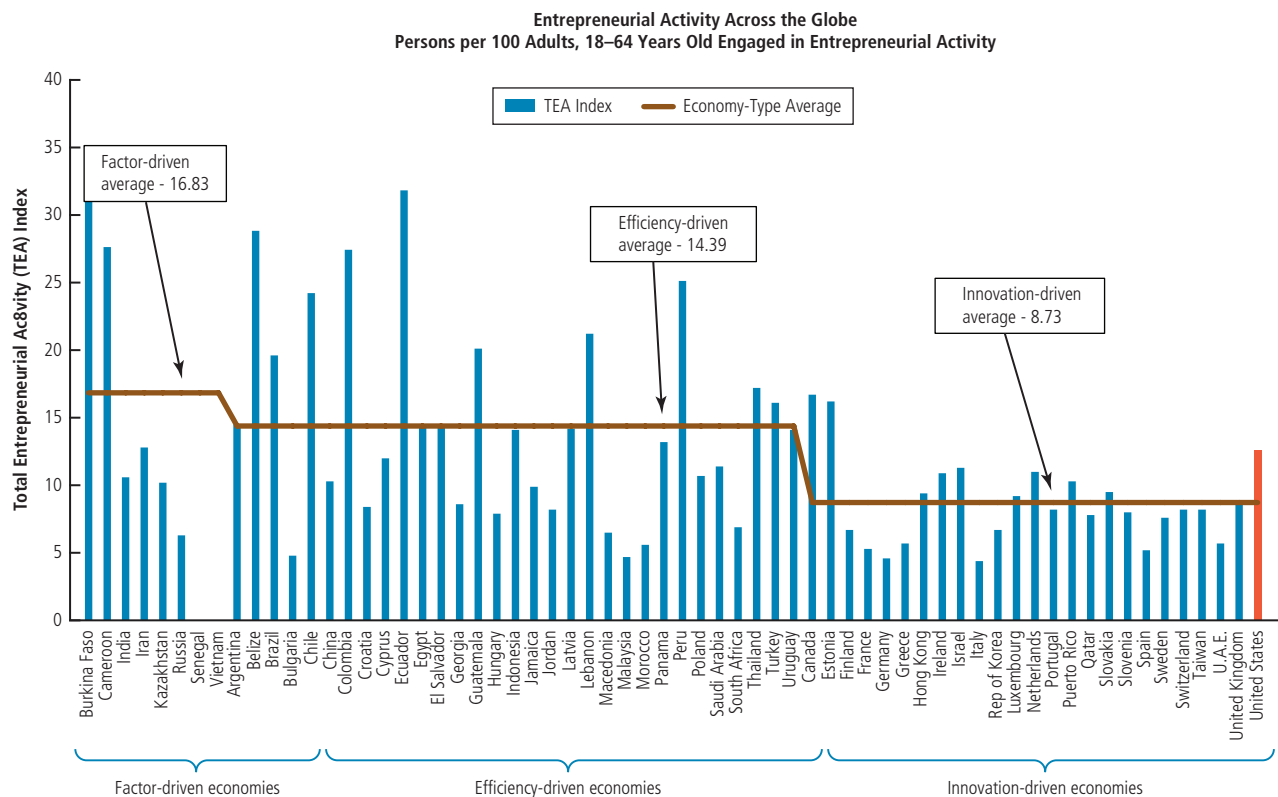
### ENTREPRENEURIAL PROFILE: Riley Csernica and Chelsea Ex-Lubeskie: Tarian Braces

While working on a class project in a bioengineering class at Clemson University, Riley Csernica and Chelsea Ex-Lubeskie were inspired to create a novel shoulder brace aimed at athletes. After graduating with degrees in biomedical engineering, Csernica and Ex-Lubeskie discovered that jobs in their field were extremely difficult to come by and began exploring the possibility of converting the shoulder brace they had developed as undergraduate students into a business. With the help of the business plan Csernica had built as part of a graduate course in Clemson's Entrepreneurship and Innovation program, the entrepreneurs, just 23 years old, launched Tarian Braces, a business based in Mt. Pleasant, South Carolina, that creates custom-fitted shoulder and ankle braces that give athletes better support and greater range of motion than traditional orthotic braces. To finance their business, Csernica and Ex-Lubeskie landed grants from South Carolina Launch and the National Science Foundation. They also competed in business plan competitions, where they met the director of The Harbor Accelerator, a business



incubator in Mount Pleasant. They applied to be and were accepted as tenants of the incubator, where they continue to build their company, promoting it on social media, networking, calling on potential customers, and attending trade shows aimed at athletic trainers. Csernica and Ex-Lubeskie currently are developing new products for the shoulder (a commonly injured part of the body) and other joints, exploring other markets (for example, elderly people with physical impairments), and investigating the possibility of using 3-D printers to produce their braces. “College students should realize that starting a company is very difficult and requires a lot of sacrifice [both women still live with their parents so that they can funnel their resources into their business],” says Csernica. “However, there is no better time to give running your own company a shot. Working for ourselves is one of the most rewarding things Chelsea and I have ever done because we have the freedom to be our own bosses.”<sup>9</sup> ■

Csernica and Ex-Lubeskie’s journey is nothing new; entrepreneurship has been part of the fabric of the United States since its earliest days. Many of the nation’s founding fathers were entrepreneurs. Thomas Jefferson started a nailery (a business that transformed iron into nails) in 1794 and purchased high-tech (at the time) nail-making machinery in 1796 to increase his company’s production. Benjamin Franklin was an inventor and in 1729, at the age of 21, convinced several friends to finance his purchase of a newspaper that he renamed *The Pennsylvania Gazette*, a business that made him quite wealthy.<sup>10</sup> That same entrepreneurial spirit remains strong today. According to the Global Entrepreneurship Monitor, 12.6 percent of the U.S. population aged 18 to 64 is engaged in entrepreneurial activity. The level of entrepreneurial activity in the United States is slightly above the global average of 12.3 percent and is well above the average (8.7 percent) for innovation-driven economies (see Figure 1.1).<sup>11</sup>



**FIGURE 1.1**  
**Entrepreneurial Activity Around the Globe**

Source: Based on data from Donna Kelley, Slavica Singer, and Mike Herrington, *Global Entrepreneurship Monitor 2016/17 Global Report*, Global Entrepreneurship Monitor, 2017, pp. 39–102.

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

One casualty of this downsizing has been the long-standing notion of job security in large corporations, which all but destroyed the notion of loyalty and has made workers much more mobile. In the 1960s, the typical employee had worked for an average of four employers by the time he or she reached age 65; today, the average employee has had eight employers by the time he or she is 30.<sup>12</sup> Members of Generation X (those born between 1965 and 1980) and Generation Y (those born between 1981 and 2000), in particular, no longer see launching a business as being a risky career path. Having witnessed large companies lay off their parents after many years of service, these young people see entrepreneurship as the ideal way to create their own job security and career success. They are eager to control their own destinies.

This downsizing trend among large companies also has created a more significant philosophical change. It has ushered in an age in which “small is beautiful.” Thirty years ago, competitive conditions favored large companies with their hierarchies and layers of management; today, with the pace of change constantly accelerating, fleet-footed, agile, small companies have the competitive advantage. These nimble competitors dart into and out of niche markets as they emerge and recede, they move faster to exploit opportunities the market presents, and they use modern technology to create within a matter of weeks or months products and services that once took years and all of the resources a giant corporation could muster. The balance has tipped in favor of small entrepreneurial companies. Alan Murray, editor of *Fortune* magazine, questions the necessity for large corporations, pointing out that today, from home (or anywhere there is an Internet connection), an entrepreneur can assemble a talented team of employees on LinkedIn, store intellectual property in the cloud, turn out products on 3-D printers, and reach customers around the world through the Internet. Howard Stevenson, Harvard’s chaired professor of entrepreneurship, says, “Why is it so easy [for small companies] to compete against giant corporations? Because while [the giants] are studying the consequences, [entrepreneurs] are changing the world.”<sup>13</sup>

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

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

Research suggests that entrepreneurial activity remains vibrant not only in the United States but elsewhere around the world as well. Entrepreneurs in every corner of the world are launching businesses thanks to technology that provides easy access to both local and global markets at start-up. Eastern European countries, China, Vietnam, and many other nations whose economies were state controlled and centrally planned are now fertile ground for growing small businesses. Table 1.1 shows some of the results from a recent study that ranks 137 nations according to the quality of the entrepreneurial environment they provide. Even countries that traditionally are not known as hotbeds of entrepreneurial activity, such as Malawi (which ranks 130th out of 137 nations in the GEDI survey), a growing country of nearly 18 million people in southeastern Africa, are home to promising start-up companies.

**TABLE 1.1 Entrepreneurship-Friendly Nations**

Which nations provide the best environment for cultivating entrepreneurship? A recent study ranked 137 countries on the quality of the entrepreneurial ecosystem in each nation using the Global Entrepreneurship and Development Index (GEDI), an index that includes a variety of factors that range from the availability of capital and workforce quality to attitudes toward entrepreneurs and technology available. The maximum GEDI score is 100.

GEDI Score, Top Ten Countries	GEDI Score, Bottom Ten Countries
1. United States 83.4	128. Venezuela 13.0
2. Switzerland 78.0	129. Nicaragua 12.7
3. Canada 75.6	130. Malawi 12.5
4. Sweden 75.5	131. Guinea 12.1
5. Denmark 74.1	132. Burkina Faso 11.9
6. Iceland 73.5	133. Bangladesh 11.8
7. Australia 72.5	134. Mauritania 11.6
8. United Kingdom 71.3	135. Sierra Leone 11.4
9. Ireland 71.0	136. Burundi 11.4
10. Netherlands 67.8	137. Chad 8.8

Source: *Global Entrepreneurship Index*, The Global Entrepreneurship and Development Institute, 2017, <https://thegedi.org/global-entrepreneurship-and-development-index/>.



**ENTREPRENEURIAL PROFILE: Bellings Zkgaka** Bellings Zkgaka lives in Usisya, a small village in Northern Malawi, where only 4 percent of residents complete high school and just 16 percent of the population is employed. Living in one of the most disadvantaged and remote regions of the world has not stifled Zkgaka's entrepreneurial spirit, however. To support his six children and three orphans he was raising, Zkgaka started a small grocery store. With a microloan of just £150 from Temwa, a nonprofit community development agency, Zkgaka was able to expand his store with a greater selection of goods, including ice pops, which have proved to be a popular item in the tropical heat. As sales and profits from his grocery store grew, Zkgaka spotted other entrepreneurial opportunities and opened a barber shop and a tailoring business. His companies now employ three people, and Zkgaka already is planning his next business venture: a restaurant. "There isn't one in my area," he says. "I want to set one up to employ more people, and I know some very good cooks!" Before starting his businesses, Zkgaka had great difficulty providing for his family; today, he is proud that his entrepreneurial ventures allow him to offer them a bright future.<sup>14</sup> ■

Wherever they choose to start their companies, entrepreneurs continue to embark on one of the most exhilarating—and one of the most frightening—adventures ever known: launching a business. It's never easy, but it can be incredibly rewarding, both financially and emotionally. It can be both thrilling and dangerous, like living life without a safety net. Yet, true entrepreneurs see owning a business as the real measure of success. Lara Morgan started Pacific Direct, a British company that sells toiletries to the hotel industry, when she was just 23. Seventeen years later, she sold a majority share for £20 million and launched a second business, Company Shortcuts, a career coaching site aimed at entrepreneurs. "Running a business is not for the faint-hearted," says Morgan. "Yes, there are sacrifices to be made; yet I would change nothing of [my] journey. I have had the flexibility, freedom, and choice to do as I please because I choose to run my own company. It was by no means an easy road. I have been sued, risked my house as collateral, and have been through my own wars, not to mention weathering storms in the business and downturns created by wars. Yet, I am now wealthy beyond my wildest dreams." As an entrepreneur, she advises, "accept that you will make sacrifices, but the up side far outweighs the down side."<sup>15</sup> Like Lara Morgan, true entrepreneurs see owning a business as the real measure of success. Indeed, entrepreneurship often provides the only avenue for success to those who otherwise might have been denied the opportunity.

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

## LO2

Describe the entrepreneurial profile.

### entrepreneur

one who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying significant opportunities and assembling the necessary resources to capitalize on them.

## What Is an Entrepreneur?

Adapted from the French verb *entreprendre*, which means “to undertake” or “to attempt,” the word “entrepreneur” was introduced in 1755 in economist Richard Cantillon’s book *Essay on the Nature of Trade in General*. Cantillon defined an entrepreneur as a producer with nonfixed income and uncertain returns.<sup>16</sup> In a typical month, adults in the United States launch 550,000 new businesses, traveling down the path of entrepreneurship that Cantillon first wrote about more than 260 years ago. An **entrepreneur** is one who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying significant opportunities and assembling the necessary resources to capitalize on them. Although many people come up with great business ideas, most of them never act on their ideas. Entrepreneurs do.

Harvard Business School professor Howard Stevenson says that entrepreneurs spot opportunities, often a better way to do something, and do not feel constrained from pursuing it because they lack resources. In fact, entrepreneurs are *accustomed* to making do without resources.<sup>17</sup> In essence, entrepreneurs are *disrupters*, upsetting the traditional way of doing things by creating new ways to do them. They upend the status quo by playing the central role of entrepreneurs: catalysts who create change.

In his 1911 book *The Theory of Economic Development*, economist Joseph Schumpeter said that entrepreneurs are more than just business creators; they are change agents in society. The process of creative destruction, in which entrepreneurs create new ideas and new businesses that make existing ones obsolete, is a sign of a vibrant economy. Although this constant churn of businesses—some rising, others sinking, new ones succeeding, and many failing—concerns some people, in reality it is an indication of a healthy, growing, economic system that is creating new and better ways of serving people’s needs and improving their quality of life and standard of living. Schumpeter compared the list of leading entrepreneurs to a popular hotel’s guest list: always full of people but people who are forever changing.<sup>18</sup>

High levels of entrepreneurial activity translate into high levels of business formation and destruction and make an economy more flexible and capable of adapting to structural changes in the competitive landscape. “The United States has succeeded in part because of its dynamism, its high pace of job creation and destruction, and its high pace of churning workers,” says John Haltiwanger, an economist who studies trends in entrepreneurship.<sup>19</sup> As disrupters, entrepreneurs are important change agents in the global economy, uprooting staid, old industries with fresh new business models that spot market opportunities and deliver the products and services that customers want.

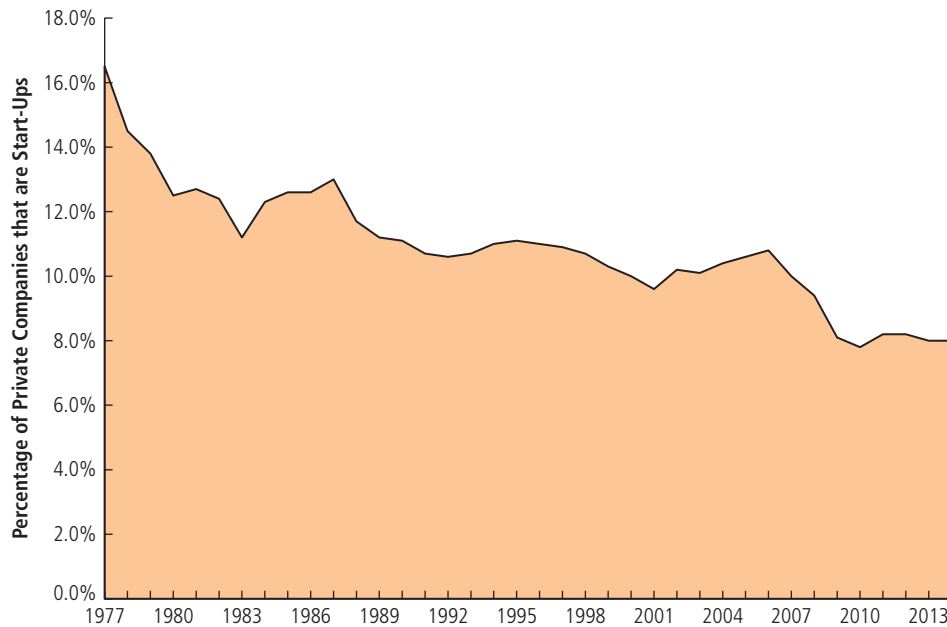


Chance Yeh/Getty Images



### ENTREPRENEURIAL PROFILE: Neil Parikh, Gabe Flateman, and Luke Sherwin: Casper Mattress

Neil Parikh, Gabe Flateman, and Luke Sherwin, all in their mid-20s, believed that the \$14 billion mattress industry, with its seemingly endless product variations, complicated delivery and return process, and high prices, was ripe for disruption. The trio of entrepreneurs decided to launch a business, Casper, in New York City that simplifies the process of buying a mattress. Casper produces only one mattress model that comes in six sizes and is priced from \$500 to \$950. Customers receive a 100-day trial period with every mattress. If a customer is dissatisfied at any time during the generous trial period, Casper picks up the mattress at no charge and provides a full refund. (Casper’s return rate is extremely low, and the company donates returned mattresses to local charities.) Living in a large city where space is limited, the trio of entrepreneurs



**FIGURE 1.2**  
**Percentage of Start-up Companies in the United States**

Source: Business Dynamics Statistics Data Tables: Firm Age, U.S. Department of Commerce, U.S. Census Bureau, 2017, [www.census.gov/ces/dataproducts/bds/data\\_firm.html](http://www.census.gov/ces/dataproducts/bds/data_firm.html).

focused their creative energy on packaging their company's mattresses for easy, compact shipping, which is free to customers. They developed a process for compressing a mattress so that it fits into a box roughly the size of a dorm refrigerator, which cost only one-tenth of what it costs to ship a full-size mattress. (Videos of "unboxing" a Casper mattress and watching it expand to its full size in less than a minute have become YouTube sensations.) By eliminating customers' pain points when buying mattresses, the entrepreneurs' have built a business model that works; Casper generated sales of \$1 million in its first *month*. In its first full year of operation, sales were \$20 million, and the company, now with 120 employees, has attracted \$70 million in venture capital financing. Casper's founders are now focusing on other sleep products and use feedback from 15,000 customers who take part in the product development process. Casper recently invested 16 months of research, testing, and feedback from customers in developing a dual-layer pillow and followed a similar process to develop sheets that provide the perfect balance of softness and breathability.<sup>20</sup> ■

Unfortunately, in the United States, the percentage of private companies that are start-up businesses (companies that are less than one year old), the primary source of the economy's healthy churn, has been declining since the late 1970s (see Figure 1.2). Although many entrepreneurs fail, some more than once, those who succeed earn the satisfaction of creating value for their customers and wealth for themselves—all while working at something that they love to do. Some of them create companies that change the world.

Researchers have invested a great deal of time and effort over the past few decades trying to paint a clear picture of "the entrepreneurial personality." Not surprisingly, the desire for autonomy is the single most important factor motivating entrepreneurs to start businesses (see Table 1.2). Although these studies have identified several characteristics entrepreneurs tend to exhibit, none of them has isolated a set of traits required for success.

We now turn to a brief summary of the entrepreneurial profile:<sup>21</sup>

1. **Desire for responsibility.** Entrepreneurs feel a deep sense of personal responsibility for the outcome of ventures they start. They prefer to be in control of their resources, and they use those resources to achieve self-determined goals. Deborah Sullivan, a lifelong serial entrepreneur, realized at the age of 16 that she did not want to spend her life working for others. "You're stuck by all of these different rules [when you work for someone else]," she says. "I wanted to create something for myself." Sullivan has been an entrepreneur since she was 22 years old, when she launched a hair salon and spa in Atlanta, Georgia. In 2012, at the age of 60, Sullivan started Consign Werks, a consignment shop in Greenville, South Carolina, which she says has been the most gratifying of her entrepreneurial ventures, perhaps



**TABLE 1.2 Why Entrepreneurs Start Businesses**

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

**Men by Age**

20s	30s	40s+
Autonomy	Autonomy	Autonomy
Power and influence	Power and influence	Power and influence
Managing people	Managing people	Altruism
Financial gain	Financial gain	Variety

**Women by Age**

20s	30s	40s+
Autonomy	Autonomy	Autonomy
Power and influence	Power and influence	Intellectual challenge
Managing people	Variety	Variety
Altruism	Altruism	Altruism

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

because she knew almost nothing about the business until she spent months researching and learning everything she could about consignment shops.<sup>22</sup>

2. **Preference for moderate risk.** Entrepreneurs are not wild risk takers but are instead *calculated* risk takers. Lee Lin, who left his job at a large investment bank to start RentHop, an online service that helps renters find the ideal apartment in New York City, says that entrepreneurs who risk everything typically do not stay in business very long. Lin says that to minimize risk, he manages his company's finances carefully and focuses on profitable growth opportunities.<sup>23</sup> A study of the founders of the businesses listed as *Inc.* magazine's fastest-growing companies found no correlation between risk tolerance and entrepreneurship. Researcher and former *Inc.* 500 chief executive officer Keith McFarland says that the belief that entrepreneurs are big risk takers just isn't true.<sup>24</sup> Unlike "high-rolling, river-boat" gamblers, entrepreneurs rarely gamble. Their goals may appear to be high—even impossible—in others' eyes, but entrepreneurs see the situation from a different perspective and believe that their goals are realistic and attainable.

Entrepreneurs usually spot opportunities in areas that reflect their passions, knowledge, backgrounds, or experiences, which increases their probability of success. Entrepreneurship is not like playing roulette, where chance determines whether one wins or loses. Instead, entrepreneurship involves recognizing and understanding opportunities in the market and taking calculated risks to capitalize on those opportunities by using their knowledge, skills, and abilities. Successful entrepreneurs do everything they can to stack the odds of winning in their favor. In other words, successful entrepreneurs are not as much risk *takers* as they are risk *eliminators*, systematically removing as many obstacles to the successful launch of their ventures as possible. Some of the most successful ways of eliminating risks include conducting a feasibility study for an idea, building and verifying a viable business model, and creating a sound business plan, which are the topics of Chapters 4 and 5.

3. **Willingness to break the rules.** Entrepreneurs have a different mindset from "adaptors," people who are conformists, abide by traditional rules, and thrive in a traditional corporate environment. Research shows that entrepreneurs are innovators who are willing to bend or

break the rules to disrupt business as usual.<sup>25</sup> The willingness of these mavericks to step outside the boundaries of traditional thinking is the source of their ability to innovate.

4. **Self-reliance.** Entrepreneurs must fill multiple roles to make their companies successful, especially in the early days of a start-up. Because their resources usually are limited, they end up performing many jobs themselves, even those that they know little about. Yet, entrepreneurs demonstrate a high level of self-reliance and do not shy away from the responsibility for making their businesses succeed. Perhaps that is why many entrepreneurs persist in building businesses even when others ridicule their ideas as follies.
5. **Confidence in their ability to succeed.** Entrepreneurs typically have an abundance of confidence in their ability to succeed and are confident that they chose the correct career path. They believe that they can accomplish just about anything! Entrepreneurs' high levels of optimism may explain why some of the most successful entrepreneurs have failed in business—often more than once—before finally succeeding. Milton Hershey, founder of one of the world's largest and most successful chocolate makers, started four candy businesses, all of which failed, before he launched the chocolate business that would make him famous.



**ENTREPRENEURIAL PROFILE: Kathryn Minshew, Alex Cavoulacos, and Melissa McCreery:**

**The Muse** At 24, Kathryn Minshew left her job at an elite management consulting firm to cofound PYP Media, a media company and career website aimed at young women. She and her cofounders ultimately split up, and Minshew lost her life savings, \$20,000. Undaunted, Minshew, her co-founder Alexandra Cavoulacos and Melissa McCreery launched The Muse, a career-oriented website that provides free advice on topics ranging from interviewing skills to writing cover letters to negotiating a raise, job listings, explorations of various career paths, behind-the-scenes tours of companies that are hiring, one-on-one coaching services, and other helpful features. Minshew says that she and her cofounders survived the early days of their startup with a steady diet of ramen noodles and hope. The founders pitched The Muse to 148 potential investors before landing a spot in – and a capital investment from – Y Combinator, the prestigious business accelerator in Silicon Valley. So far, Minshew and Cavoulacos (McCreery has since left the company to earn a PhD) have raised \$28.7 million in financing, and The Muse attracts more than 6 million users each month. Looking back, Minshew says that PYP Media's failure was the best thing that ever happened to her because it set the stage for The Muse's success.<sup>26</sup> Like Minshew, smart entrepreneurs recognize that their failures can be the source of some of the lessons that lead them to their greatest successes. ■



Courtesy of The Muse

6. **Determination.** Some people call this characteristic “grit,” the ability to focus intently on achieving a singular, long-term goal. It entails a combination of passion and perseverance. Studies show that grit is a reliable predictor of achievement and success, whether the goal involves launching a successful business, winning the Scripps National Spelling Bee, or excelling in professional sports.<sup>27</sup> (One recent study concludes that top performance in the National Football League's Combine, in which players who are entering the league's draft perform short physical and mental tasks, has no “consistent statistical relationship” to subsequent performance in the league.) Bob Mankoff, an aspiring cartoonist, demonstrated grit by submitting 2,000 cartoons to *The New Yorker* before the magazine ever accepted one. Mankoff went on to have a successful career as a cartoonist and is now the cartoon editor of *The New Yorker*.<sup>28</sup>

Successful entrepreneurs demonstrate high levels of determination, especially in the face of challenging circumstances. Research by Robert Fairlie of the University of California, Santa Cruz, shows that the Great Recession, which began in late 2007, spawned a surge in entrepreneurship and that the types of businesses entrepreneurs started were

similar to those they start in prosperous times.<sup>29</sup> Perhaps that explains why 57 percent of the *Fortune* 500 companies were launched in either a recession, a “bear” market, or both.<sup>30</sup>



James Ransom/Food52



#### ENTREPRENEURIAL PROFILE: Amanda Hesser:

**Food52** Amanda Hesser took a circuitous route to entrepreneurship, working as a baker, a chef, and a leading food editor for *The New York Times* before launching her first business, a Web platform called Seawinkle that allowed users to consolidate their digital histories in one place. The business never gained traction, and Hesser decided to shut it down. Unfazed by the failure of her first venture, Hesser partnered with Merrill Stubbs to launch Food52, a Web site that provides a gathering place for foodies and includes recipes, captivating articles about food and its proper preparation, and food-related products. Like Seawinkle, Food52 struggled in its infancy and borrowed money from Stubbs’s mother and Hesser’s husband to stay afloat. Hesser and Stubbs persevered, however, eventually raising \$9 million in capital from top-tier investors. Food52 employs 52 people, generates sales of more than \$6 million annually, and is growing at nearly 900 percent a year.<sup>31</sup> ■

7. ***Desire for immediate feedback.*** Entrepreneurs enjoy the challenge of running a business, and they like to know how they are doing and are constantly looking for feedback. Few things in life provide more meaningful feedback than an entrepreneur’s business. Entrepreneurs have many ways, from sales and profits to the number of likes on Facebook and the number of followers on Instagram or Twitter, by which they measure their companies’ success.
8. ***High level of energy.*** Entrepreneurs are more energetic than the average person. That energy may be a critical factor given the incredible effort required to launch a start-up company. Long hours and hard work are the rule rather than the exception, and the pace can be grueling. According to a survey by Bank of America, 72 percent of small business owners work more than 40 hours per week.<sup>32</sup> Another survey by Sage Software reports that 37 percent of business owners work more hours per week than they did just five years ago.<sup>33</sup> The phenomenon is not limited to the United States. A survey of British entrepreneurs reports that business owners there work an average of 52 hours per week, 63 percent more than the average worker.<sup>34</sup> Will Schroter, an entrepreneur who has launched numerous companies, including Go Big Network, an online community for entrepreneurs, says that he works at 1:30 in the morning because he is the founder of a start-up, and start-up founders often don’t have time to sleep because their work is never-ending. He laughs, saying that he can catch up on his sleep when his company has grown and matured and has levels of managers to handle the immense workload that he now manages himself.<sup>35</sup>
9. ***Competitiveness.*** Entrepreneurs tend to exhibit competitive behavior, often early in life. They enjoy competitive games and sports and always want to keep score.
10. ***Future orientation.*** Entrepreneurs have a well-defined sense of searching for opportunities. They look ahead and are less concerned with what they did yesterday than with what they might do tomorrow. Not satisfied to sit back and revel in their success, real entrepreneurs stay focused on the future. Ever vigilant for new business opportunities, entrepreneurs *observe* the same events other people do, but they *see* something different. Dr. Rodney Perkins, an ear surgeon and medical entrepreneur, has started 16 health and life science companies, 3 of which have made initial public offerings, over the course of his career. Together, his companies are worth several billions of dollars. Now 80, Perkins, the quintessential entrepreneur, continues to look for the next opportunity. His most recent company, Soundhawk, based in Cupertino, California, markets an affordable smart listening system that integrates the latest advances in hearing science with the convenience of

modern wireless and mobile technology to help users hear better by filtering out background noise and amplifying only important sounds.<sup>36</sup>

Entrepreneurs see potential where most others see only problems or nothing at all, a characteristic that often makes them the objects of ridicule (at least until their ideas become huge successes). Whereas traditional managers are concerned with managing available *resources*, entrepreneurs are more interested in spotting and capitalizing on *opportunities*. In the United States, 84 percent of those engaged in entrepreneurial activity are **opportunity entrepreneurs**, people who start businesses because they spot an opportunity in the marketplace, compared to **necessity entrepreneurs**, those who start businesses because they cannot find work any other way.<sup>37</sup>



**ENTREPRENEURIAL PROFILE: Morgan Hermand-Waiche: AdoreMe** While attending business school, Morgan Hermand-Waiche wanted to surprise his girlfriend with a gift of fine lingerie but was surprised at the discrepancy between the prices of fine lingerie and his college student budget. Spotting an opportunity, Hermand-Waiche began researching the intimate apparel business. Using his experience and network of contacts at his family's fashion business in France, Hermand-Waiche developed a line of stylish, comfortable bras that he could sell to young women at an affordable price point. Because bras are difficult to produce (they typically contain 60 or more components), manufacturers he talked to would fill only large orders of 1 million units or more. Hermand-Waiche spent two years raising \$11.5 million in investment capital before launching his e-commerce business, AdoreMe. Hermand-Waiche has since expanded the product line to include panties, lounge-wear, sleepwear, and bathing suits. AdoreMe now generates more than \$43 million in annual sales and is opening stores in select markets across the United States.<sup>38</sup> ■

**Serial entrepreneurs**, those who repeatedly start businesses and grow them to a sustainable size before striking out again, push this characteristic to the maximum. The majority of serial entrepreneurs are *leapfroggers*, people who start a company, manage its growth until they get bored, and then sell it to start another. A few are *jugglers* (or *parallel entrepreneurs*), people who start and manage several companies at once. Serial entrepreneurs instinctively know that the process of creating a company takes time, and many choose to pursue several ideas at the same time.<sup>39</sup> *The Entrepreneur State of Mind* study reports that 54 percent of business owners are serial entrepreneurs.<sup>40</sup> “The personality of the serial entrepreneur is almost like a curse,” admits one entrepreneurial addict. “You see opportunities every day.”<sup>41</sup> Serial entrepreneur Scott Painter has started 37 companies, not all of which have succeeded, including Pricelock, Advertise.com, and TrueCar. He started his first company, an auto detailing business, at age 14 and has been launching businesses ever since.<sup>42</sup>

It's almost as if serial entrepreneurs are addicted to launching businesses. “Starting a company is a very imaginative, innovative, energy-driven, fun process,” says Dick Kouri, who has started 12 companies in his career and now teaches entrepreneurship at the University of North Carolina. “Serial entrepreneurs can't wait to do it again.”<sup>43</sup>

11. **Skill at organizing.** Building a company “from scratch” is much like piecing together a giant jigsaw puzzle. Entrepreneurs know how to put together the right people to accomplish a task. Effectively combining people and jobs enables entrepreneurs to transform their visions into reality. “Great entrepreneurship is in the execution,” says Eric Paley, an entrepreneur-turned-venture-capitalist.<sup>44</sup>
12. **Value of achievement over money.** One of the most common misconceptions about entrepreneurs is that they are driven wholly by the desire to make money. To the contrary, *achievement* seems to be entrepreneurs' primary motivating force; money is simply a way of “keeping score” of accomplishments—a symbol of achievement. What drives entrepreneurs goes much deeper than just the desire for wealth. Economist Joseph Schumpeter claimed that entrepreneurs have “the will to conquer, the impulse to fight, to prove oneself superior to others, to succeed for the sake, not of the fruits of success, but of success itself.” Entrepreneurs, he says, experience “the joy of creating, of getting things done, or simply of exercising one's energy and ingenuity.”<sup>45</sup>

### opportunity entrepreneurs

entrepreneurs who start businesses because they spot an opportunity in the marketplace.

### necessity entrepreneurs

entrepreneurs who start businesses because they cannot find work any other way.

### serial entrepreneurs

entrepreneurs who repeatedly start businesses and grow them to a sustainable size before striking out again.



Other characteristics that entrepreneurs tend to exhibit include the following:

- **High degree of commitment.** Entrepreneurship is hard work, and launching a company successfully requires total commitment from an entrepreneur. Business founders often immerse themselves completely in their companies. Most entrepreneurs have to overcome seemingly insurmountable barriers to launch a company and to keep it growing. That requires commitment and fortitude. Phil Karlin, a former commercial lobster fisherman, invested his entire life savings to start North Fork Smoked Fish, a company in Greenport, New York, that sells smoked fish and seafood and fish patés made from fish caught fresh off the coast of Long Island to shoppers as well as some of New York City’s top restaurants. At 54, Karlin recognizes the risk he has taken, but his experience coupled with the quality and uniqueness of the company’s products gives him confidence that he will succeed.<sup>46</sup>
- **Tolerance for ambiguity.** Entrepreneurs tend to have a high tolerance for ambiguous, ever-changing situations, the environment in which they most often operate. This ability to handle uncertainty is critical because these business builders constantly make decisions using new, sometimes conflicting information gleaned from a variety of unfamiliar sources. Based on his research, entrepreneurial expert Amar Bhidé says that entrepreneurs exhibit a willingness to jump into ventures even when they cannot visualize what the ultimate outcome may be.<sup>47</sup>
- **Creativity.** One of the hallmarks of entrepreneurs is creativity. They constantly come up with new product or service ideas, unique ways to market their businesses, and innovative business models. Their minds are constantly at work developing unique business ideas. Jennifer Lewis, a professor of engineering and applied sciences, is the cofounder and CEO of Voxel8, a company that specializes in 3-D printing technology capable of producing finished electronic devices. Rather than produce components ready for assembly like traditional 3-D printers do, Voxel8’s process uses materials such as conductive inks, flexible silicones, and high-strength epoxies to print embedded conductors, wires, and batteries into finished functional parts that require no assembly. Voxel8 recently landed \$12 million in venture capital to continue developing and marketing its innovative technology.<sup>48</sup> You will learn more about the creative process and how to stimulate entrepreneurial creativity in Chapter 3.
- **Flexibility.** One hallmark of true entrepreneurs is their ability to adapt to the changing needs and preferences of their customers and the changing demands of the business environment. In this rapidly changing global economy, rigidity often leads to failure. Successful entrepreneurs learn to be masters of improvisation, reshaping and transforming their businesses as conditions demand. Research by Saras Sarasvathy, a professor at the University of Virginia’s Darden School of Business, shows that entrepreneurs excel at effectual reasoning, which does not begin with a specific goal. Instead, effectual thinkers are like explorers setting out on voyages into uncharted waters. Like explorers, entrepreneurs set goals, but their goals are flexible. Sarasvathy compares entrepreneurs to iron chefs, who prepare sumptuous meals when handed a hodgepodge of ingredients and given the task of using their creativity to come up with an appetizing menu. Corporate CEOs, on the other hand, develop a plan to prepare a specific dish and then create a process for making that dish in the most efficient, expeditious fashion.<sup>49</sup>
- **Resourceful.** Entrepreneurs excel at getting the most out of the resources that are available—however limited they may be. They are the MacGyvers of the business world, able to accomplish almost any task using their street smarts, despite having only minimal resources. (*MacGyver* was a television show that ran from 1985 to 1992 and featured a secret agent whose extensive knowledge of science enabled him to develop innovative, spontaneous solutions to the catastrophic situations he often faced. For instance, MacGyver once used a lens from a pair of binoculars to reflect a laser beam back to its source and destroy the device.)

### bootstrapping

a strategy that involves conserving money and cutting costs during start-up so that entrepreneurs can pour every available dollar into their businesses.

Entrepreneurs rarely have “enough” resources; however, they know how to maximize the resources they have. They are skilled at **bootstrapping**, a strategy that

involves conserving money and cutting costs during start-up so that entrepreneurs can pour every available dollar into their businesses.



**ENTREPRENEURIAL PROFILE: Sara Blakely: Spanx**

In 1998, Sara Blakely was a door-to-door fax salesperson. Tired of dealing with pantyhose that bunched up, she developed a slimming version of what she called *shapewear*, footless pantyhose designed to lie smoothly under a woman's clothing. She invested her life savings of \$5,000 to create a company, Spanx, to market her invention. Her Atlanta apartment was the company's headquarters, and her bathroom was the order fulfillment center. Blakeley knew that she should file for a patent for her shapewear products but did not have enough money to hire a patent attorney, so she spent many evenings in the library at nearby Georgia Tech University, researching patent law. She wrote her own patent application (successfully) and spent weekends driving more than five hours to North Carolina, calling on hosiery mills, trying to convince one of them to manufacture her product. After a "show and tell" session with a Neiman Marcus buyer, Blakely landed her product in seven of the retailer's stores. Then Oprah Winfrey touted Spanx on her list of favorite things, and the company's sales took off. Today, the Spanx line includes more than 200 items, and because Blakely bootstrapped her company, which is valued at more than \$1 billion, she still owns 100 percent of it. Spanx made Blakely the youngest self-made female billionaire in the world (and she has pledged to give away most of her wealth).<sup>50</sup> ■



Mike McGregor/Contour/Getty Images

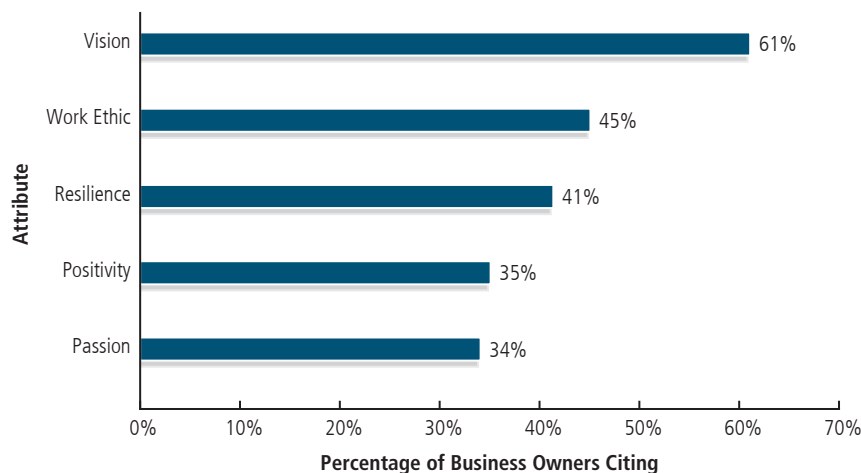
- **Willingness to work hard.** Entrepreneurs work hard to build their companies, and there are no shortcuts around the workload. In his book *Outliers: The Story of Success*, Malcolm Gladwell observes that the secret to success in business (or sports, music, art, or any other field) is to invest at least 10,000 hours practicing and honing one's skills. For instance, Mark Cuban, billionaire owner of the Dallas Mavericks of the National Basketball Association and founder of Broadcast.com, the leading provider of multimedia and streaming on the Internet (which he sold to Yahoo! for \$5.7 billion), says that he worked for seven years without taking a day off to launch his first business, Micro-Solutions, a computer systems integrator. Cuban spent his days making sales calls, and at night and on weekends he studied and practiced to learn everything he could about computers.<sup>51</sup> Entrepreneurs capitalize on opportunities through sheer hard work. A great idea may come to an entrepreneur in a flash, but building a successful business from a great idea takes time and lots of hard work.<sup>52</sup>
- **Tenacity.** Obstacles, obstructions, and defeat typically do not dissuade entrepreneurs from doggedly pursuing their visions. They simply keep trying. Hurricane Sandy nearly wiped out Jackie Summers' company, Jack from Brooklyn, which produces a unique artisanal alcoholic beverage called *sorel* in an old warehouse in Brooklyn's historic Red Hook district. Despite the loss of product, equipment, and sales, Summers persevered and rebuilt his business. Summers's spirit of tenacity, willingness to concentrate on a single insurmountable task each day, and accomplishment of each task allowed him to recover from the devastating loss.<sup>53</sup> Noting the obstacles that entrepreneurs must overcome, economist Joseph Schumpeter argued that success is "a feat not of intellect but of will."

What conclusion can we draw from the volumes of research conducted on the entrepreneurial personality? Entrepreneurs are not of one mold; no one set of characteristics can predict who will become entrepreneurs and whether they will succeed. Indeed, *diversity* seems to be a central characteristic of entrepreneurs. One astute observer of the entrepreneurial personality explains, "Business owners are a culture unto themselves—strong, individualistic people who scorn convention—and nowadays, they're driving the global economy."<sup>54</sup> Indeed, entrepreneurs tend to be nonconformists, a characteristic that seems to be central to their views of the world and to their success.

FIGURE 1.3

**Most Important Qualities of an Entrepreneur**

Source: Ryan Westwood, “What Traits Do We Need to Succeed as Entrepreneurs?” *Forbes*, September 4, 2015, [www.forbes.com/sites/ryanwestwood/2015/09/04/what-traits-do-we-need-to-succeed-as-entrepreneurs/#4d7f537f8ff4](http://www.forbes.com/sites/ryanwestwood/2015/09/04/what-traits-do-we-need-to-succeed-as-entrepreneurs/#4d7f537f8ff4).



As you can see from the examples in this chapter, *anyone*, regardless of age, race, gender, color, national origin, or any other characteristic, can become an entrepreneur (although not everyone should). There are no limitations on this form of economic expression. Entrepreneurship is not a mystery; it is a practical discipline. Entrepreneurship is not a genetic trait; it is a skill that most people can learn. It has become a very common vocation. The editors of *Inc.* magazine claim, “Entrepreneurship is more mundane than it’s sometimes portrayed. . . . You don’t need to be a person of mythical proportions to be very, very successful in building a company.”<sup>55</sup> Figure 1.3 summarizes the qualities that company founders say are most important to entrepreneurs.

**LO3A**

Describe the benefits of entrepreneurship.

**The Benefits of Entrepreneurship**

Surveys show that owners of small businesses believe they work harder, earn more money, and are more satisfied than if they worked for someone else. Before launching any business venture, every potential entrepreneur should consider the benefits of small business ownership.

**Opportunity to Create Your Own Destiny**

Owning a business provides entrepreneurs the independence and the opportunity to achieve what is important to them. Entrepreneurs want to “call the shots” in their lives, and they use their businesses to make that desire a reality. Numerous studies of entrepreneurs in several countries report that the primary incentive for starting their businesses is “being my own boss.” “Owning your own business means you have some say in deciding what your destiny is going to be,” says Kathy Mills, founder of Strategic Communications, a highly successful information technology company in Louisville, Kentucky.<sup>56</sup>

**Opportunity to Make a Difference**

Increasingly, entrepreneurs are starting businesses because they see an opportunity to make a difference in a cause that is important to them. Known as **social entrepreneurs**, these business builders seek innovative solutions to some of society’s most vexing problems. They use their skills not only to create profitable business ventures but also to achieve social and environmental goals for society as a whole. Their businesses often have a triple bottom line that encompasses economic, social, and environmental objectives. These entrepreneurs see their businesses as mechanisms for achieving social goals that are important to them as individuals. Whether it is providing low-cost, sturdy housing for families in developing countries or establishing a recycling program to preserve Earth’s limited resources, these entrepreneurs are finding ways to combine their concerns for social issues and their desire to earn a good living.

**social entrepreneurs**

entrepreneurs who use their skills not only to create profitable businesses but also to achieve economic, social, and environmental goals for the common good.



## You Be the Consultant

### Making the Most of an Opportunity

The inspiration for business ideas may strike entrepreneurs at any time and sometimes comes from unexpected sources. Many people come up with creative ideas for businesses, but what sets entrepreneurs apart is their willingness to act on their ideas.

#### Billiam Jeans

While Bill Mitchell was a student at Clemson University, he took up an atypical hobby: tailoring clothing for his friends. Mitchell reworked everything from ties and tuxedos to bridesmaid dresses and pants, even though he had no formal sewing training. Mitchell learned his sewing skills by reverse engineering, taking apart garments to see how they were put together. After his parents purchased a used sewing machine at a Goodwill store, Mitchell began making jeans for his friends, and within a year, he had a waiting list of 400 people. That prompted him to start Billiam (his college nickname) Jeans, a company that makes custom-fitted jeans, in his parents' basement.

Mitchell's business continued to grow, which prompted a move to the back of a climbing gym. He soon outgrew that space, which led him to sell his car to pay for a lease on a 1,600-square-foot storefront in a hip, historic section in Greenville, South Carolina, a city that a generation ago was a hub of the textile industry. Today, Mitchell, three employees, and two full-time interns make custom jeans aimed primarily at men between the ages of 30 and 50 on vintage cutting tables, rivet presses, and sewing machines that are at least 60 years old and often are repaired with screwdrivers, prayers, and tweezers, according to Mitchell. The company uses only one type of denim fabric, raw selvedge denim, which is made on 100-year-old Draper looms in Greensboro, North Carolina, by one of the most renowned mills in the world, Cone Mills. The supply of this high-quality, finely woven denim fabric is limited, but jeans connoisseurs appreciate showing off the distinctive weave pattern when they turn up the cuffs on their custom-fitted jeans, which come in three leg styles and four different colors and start at \$200. Billiam Jeans recently expanded its product line to include women's jeans and leather belts and bracelets and plans to add denim jackets, denim shorts, and chambray shirts.

Billiam Jeans is an anachronism, blending old-world techniques to make its denim products by hand and using modern marketing techniques, particularly social media marketing, to build the Billiam brand. Although sales have grown 330 percent each year for the last three years, Mitchell has not had to resort to outside financing. Several companies have approached Mitchell about distributing Billiam jeans internationally, but for now, he is content to have his company focus on local sales and grow organically.

#### ZVerse

John Carrington and Kevin Maloney left their corporate careers behind to start ZVerse, a company in Columbia, South Carolina,

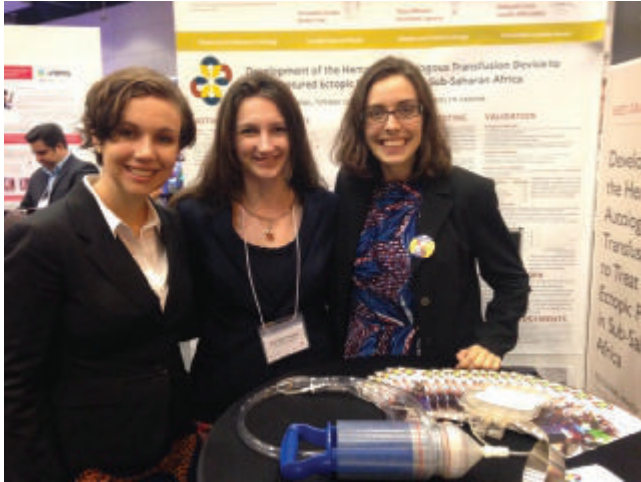
that specializes in translating two-dimensional images into three-dimensional works of art using the latest in 3-D printer technology. Launched in a business incubator, the entrepreneurs discovered a unique niche when representatives from the athletic department at Carrington's alma mater, the University of South Carolina, asked the company to create a unique gift to present to war heroes at a Salute to the Troops ceremony during halftime at a football game. Carrington and Maloney used their 3-D printing expertise to create a three-dimensional replica of the University of South Carolina football stadium that was so detailed that it included the image of a replay on the jumbo video screen. In the past, companies that sold stadium replicas to fans purchased them from foreign manufacturers and had to purchase large volumes of inventory, often 10,000 or more units. ZVerse's technology mastery allows the company to produce highly detailed replicas in small production runs, minimizing the risks that its retail customers take of being stuck with excess inventory. The sources of the company's competitive advantage are its speed, flexibility, and focus on customer service.

Spotting a large potential market, Carrington and Maloney decided not to become just another 3-D printing service company and negotiated licensing arrangements with 24 major universities from the Southeastern Conference and the Atlantic Coast Conference to sell replicas of their stadiums and mascots. ZVerse recently graduated from the incubator where it was hatched and moved into a large manufacturing facility that allows it to meet the rapidly growing demand for its unique products. Carrington and Maloney also successfully raised \$1 million in venture capital to fuel the company's next round of growth. In two years, ZVerse's workforce grew from 3 employees to 16, and Carrington and Maloney are negotiating deals with other colleges and universities as well as NASCAR and Major League Baseball to produce replicas of race tracks and baseball stadiums. They also are working to license their proprietary process to other companies that are engaged in 3-D printing.

1. What benefits do entrepreneurs such as Bill Mitchell, John Carrington, and Kevin Maloney gain from creating businesses of their own rather than working for someone else?
2. What risks did these entrepreneurs take on when they started their businesses?
3. Is the way that these entrepreneurs discovered their business opportunities typical? Explain.

*Sources:* Based on Stephanie Burnette, "Decking Out Dad," *Greenville News*, June 7, 2014, pp. D1–D2; Ruta Fox, "Jeans Genius," *Town*, December 26, 2012, [www.towncarolina.com/features/36-fashion/666-jeans-genius.html](http://www.towncarolina.com/features/36-fashion/666-jeans-genius.html); Roddie Burris, "Tiny Stadium Replicas a Touchdown for S.C. Firm," *The State*, April 21, 2014, [www.thestate.com/2014/04/21/3400897/tiny-stadium-replicasa-touchdown.html](http://www.thestate.com/2014/04/21/3400897/tiny-stadium-replicasa-touchdown.html).





Courtesy of Katherine Kirsch, Chief Marketing Officer, Sisu Global Health Inc.



#### ENTREPRENEURIAL PROFILE: Carolyn Yarina: CentriCycle

As part of a class project in a freshman engineering class at the University of Michigan, Carolyn Yarina discovered that one of the greatest needs of rural health workers in developing nations is a centrifuge that could operate without electricity. By the end of the semester, Yarina and a team of students designed a human-powered centrifuge made from bicycle parts called the CentriCycle. The project stirred Yarina's interest in entrepreneurship, and she began taking courses in that field, including one on social entrepreneurship that enabled her to go to India. Soon, Yarina and fellow student Katie Kirsch teamed up with University of Michigan graduate Gillian Henker, who was developing Hemafuse, an auto-transfusion pump for blood, to create Sisu Global Health, a socially conscious, for-profit business that focuses on medical products designed to meet the needs of healthcare professionals in developing countries. After field tests, the entrepreneurs redesigned the CentriCycle as a hand-operated device, but their goal

remains the same: to use their business to improve the quality of healthcare in developing nations. Yarina, CEO of Sisu Global Health, says that she never expected to be the head of an entrepreneurial venture, but she now realizes that entrepreneurship involves more than merely making money; it involves making a positive impact on the world.<sup>57</sup> ■

Yarina, Kirsch, and Henker are just two of millions of social entrepreneurs who have started for-profit businesses with a broader goal of making the world a better place to live.

### Opportunity to Reach Your Full Potential

Too many people find their work boring, unchallenging, and unexciting. But not entrepreneurs! To them, there is little difference between work and play; the two are synonymous. Entrepreneurs' businesses become their instruments for self-expression and self-actualization. They know that the only boundaries on their success are those imposed by their own creativity, enthusiasm, and vision, not limits artificially created by an organization (e.g., the "glass ceiling").

Owning a business gives them a sense of empowerment. While Elizabeth Elting was in college, she worked in the translation industry, where she saw plenty of room for improvement. After she met Phil Shawe at New York University's Stern School of Business, the pair decided to start TransPerfect Translations to provide timely, accurate translation services to companies around the globe. Launched from a dorm room, TransPerfect Translations now employs more than 2,000 people in 80 offices on six continents and generates annual sales of more than \$350 million. Elting and Shawe have financed the companies' growth without any external financing. "We like not having to answer to other people, to spend time explaining exactly where we are to investors," says Elting. "We like it that it's just the two of us. There's nothing else we'd rather be doing every day."<sup>58</sup>

### Opportunity to Reap Impressive Profits

Although money is not the primary force driving most entrepreneurs, the profits their businesses can earn are an important motivating factor in their decisions to launch companies. A recent survey by online lender OnDeck reports that 65 percent of small business owners believe that they are in a better financial position running their own businesses than working for a company in the same field.<sup>59</sup> Several studies, including one by the Institute for the Study of Labor, confirm this belief; the median salary for entrepreneurs is 18 percent higher than that for employed workers.<sup>60</sup> Entrepreneurs are not constrained by the boundaries that corporate hierarchies impose on their employees; they are free to create value by making the best use of their experience, skills, abilities, and ideas and, as a result, reap the financial benefits of their creative efforts. Most entrepreneurs never become superrich, but many of them do become quite wealthy. Indeed, nearly 75 percent of those on the *Forbes* list of the 400 richest Americans are first-generation entrepreneurs (and most of the others are part of successful family businesses)!<sup>61</sup> In addition, the net worth of the entrepreneurs in the *Forbes* list of the 40 richest entrepreneurs under



## You Be the Consultant

### Decoding the DNA of the Entrepreneur

Management consulting firm Ernst & Young has developed the following model of an entrepreneur.

#### Nucleus

At the center of the model lie the entrepreneur's complementary characteristics of an opportunistic mindset and an attitude of tolerance of risk and failure.

**Opportunistic mindset.** One of the hallmarks of entrepreneurs is their ability to spot opportunities where others do not. They know that although disruptions create problems, they also create opportunities for those who are prepared to capitalize on them. Grace and Seung Paik and their three children ate many meals at restaurants while their house was being remodeled. Like most other young children, the little Paiks often grew restless, crumpled up their placemats, and wanted to run around the restaurant. To keep her children occupied while dining out, Seung created reusable placemats with chalkboards on one side so that the children could draw and doodle. When the food arrived, they simply flipped the mats over and had traditional placemats. When other parents began asking Seung where they could get similar placemats, she decided to launch a business selling them through local boutiques. Seung has expanded the

company's product line to include smocks, aprons, tote bags, chalk, baby bibs, and other items. Her company, Jaq Jaq Bird, has been featured on HGTV, CNBC, and Rachael Ray TV shows as well as on the Web site Daily Candy. It now sells its products through major retailers, including Nordstrom, Target, and The Container Store.

**Tolerance of risk and failure.** Most people are risk averse. Most entrepreneurs don't take extraordinary risks, but they accept risk as a natural part of achieving big goals. Mark Coker, CEO of Smashwords, a publisher of e-books, says that as an entrepreneur, he cannot afford to make too many mistakes; otherwise, his business will fail. However, he admits that if he is not making enough mistakes, that means he is not taking enough risks, and the business will fail. Keri Ferry was working long days in a private equity firm when she was inspired by retail models offering high-quality items at low prices directly to consumers. Ferry quit her job and launched 25 Bedford, a direct-to-consumer e-tail collection of quality mix-and-match professional separates aimed at young professional women like herself. Each piece in the collection, which is made in New York City's garment district, is simple, elegant, and designed to go with every other piece, maximizing the number of clothing combinations



(continued)

## You Be the Consultant *(continued)*

a woman has. As an entrepreneur, Ferry, who financed 25 Bedford with money from family and friends, says that every morning when she makes out her to-do list, she realizes that she does not know how to do any of the items but she loves figuring things out. She also admits that her journey has required a willingness to take some risks.

### Inner Ring

The inner ring of the model shows six characteristics that are integral parts of the entrepreneurial personality.

*Drive, tenacity, and persistence.* To bring their business ideas to life, entrepreneurs must demonstrate drive, tenacity, and persistence. Entrepreneurs must overcome countless obstacles on their way to building successful businesses.

*Architect of own vision; passionate and focused.* As you have learned in this chapter, entrepreneurs enjoy being in control of their own destinies, and they are passionate, even fanatical, about their business ideas. David Walsh, a former CIA operative and founder of Prescient Edge, a security integration and technology development business in McLean, Virginia, says that being solely responsible for every facet of his business can be a challenge, but it also means that there are no limits on his ability to create value. Jo Malone founded a highly successful cosmetics company at her kitchen table in London with four plastic mixing jugs for fragrances that she named after herself and ultimately sold to Estée Lauder. After a successful battle with cancer, Malone started a second company, Jo Loves, that sells a line of bath and body products, including unique fragrances, in a shop on London's Elizabeth Street. Malone's passion for her business and its products is driving her company's rapid growth. Malone says that successful entrepreneurs need three qualities: creativity, resilience, and passion.

*Build an ecosystem of finance, people, and know-how.* Smart entrepreneurs know that they cannot do everything themselves and build a team of professionals to nurture and protect the business. While attending the University of South Carolina, Allen Stephenson dreamed of starting a business. Having operated a successful lawn care business in high school, Stephenson had a head start on the road to entrepreneurship. His inspiration came one day as a result of a semester he spent abroad in Italy, where he saw firsthand fine clothing made with attention to detail; he took a pair of scissors to his collection of polo shirts, cut away what he considered to be the best features of each one, and stitched them back together into a model "Frankenstein" shirt. He spent the next year working with several textile industry veterans, perfecting his design for the perfect polo shirt and having samples made by 11 factories in four countries. Stephenson launched Southern Tide, ordered 5,500 shirts, and began calling on independent men's shops to sell them. Most shop owners declined, which prompted him to start giving the owners a few shirts to wear or to give to their best customers. The handouts accelerated sales quickly, and Stephenson made an important and selfless decision to bring in an experienced CEO, Jim Twining. "I was sure [the business] was going to work if I just kept working at it and getting the right people together," he says. "I knew it wouldn't work with what and who I alone knew at the time." Twining led Southern Tide in

a \$1.8 million round of equity financing and developed a strategic plan to guide its growth. Today, Southern Tide's product line has grown well beyond the perfect polo shirt to include pants, T-shirts, hats, belts, shoes, swimwear, and more and is sold in nearly 600 stores in 43 states and on its Web site. Many publications, including *Inc.* and *Forbes*, have recognized Stephenson's Southern Tide as one of the fastest-growing small companies in the United States.

*Seek out market niches and gaps.* Entrepreneurs are adept at finding lucrative niches and gaps in the market that large businesses often overlook. After the real estate market collapsed, David Campbell left the industry and started Boxman Studios, a company based in Charlotte, North Carolina, that is focused on a unique market niche: transforming shipping containers into portable, upscale, turn-key hospitality suites aimed at companies participating in special events and marketing promotions or businesses establishing temporary pop-up shops. With annual sales of more than \$4 million, Boxman Studios counts among its customers many small companies as well as major corporations such as Red Bull, Google, Razorfish, Ford, and Delta Air Lines.

*Live what you believe; build success, culture, and values.* As you have seen, entrepreneurs create company cultures that reflect their values and belief systems. "You live what you believe," says Turner Davila, founder of Katcon, an automotive supplier in Santa Catarina, Mexico. Entrepreneurs often build businesses that seek to achieve financial, social, and environmental goals that make their communities—and the world—better places to live.

*Be a nonconformist and a team player.* Entrepreneurs tend to be nonconformists, choosing to do things their own way. Just as many traditional managers would find the life of an entrepreneur unsettling, so too would entrepreneurs find the boundaries, rules, and traditions of corporate life stifling and boring. Yet successful entrepreneurs recognize the importance of being team players. They understand that accomplishing big goals requires a broad set of skills that no one person has. Sisters Sophie LaMontagne and Kallinis Berman were very close growing up but went their separate ways after college. LaMontagne became a biotech expert, and Berman worked in the fashion industry. In 2008, the sisters reunited to realize a dream that they had had since childhood: owning a bakery together. "We quit our jobs, borrowed our grandmother's cake recipes, and took a leap of faith," says LaMontagne. Today, the sisters are at the helm of Georgetown Cupcake, a bakery that has grown from a two-person shop outside of Washington, DC, to a 350-person operation with stores in New York City, Boston, Atlanta, and Los Angeles.

### Outer Ring

The model's outer ring includes many of the entrepreneurial traits discussed in this chapter, including resilience, teamwork, innovation, passion, leadership, integrity, quality, customer focus, flexibility, and vision.

1. How do the characteristics at the model's nucleus—opportunistic mindset and tolerance of risk and failure—fit together in the entrepreneur's mind?

*(continued)*

## You Be the Consultant

2. Work with a team of your classmates to interview at least one entrepreneur. Does he or she fit the model described here? Explain, giving specific examples from your interview.

*Sources:* Based on “Barbara Haislip, “No More Restless Children at Restaurants?” *Wall Street Journal*, May 2, 2016, p. R3; “The Inc. 500,” *Inc.*, September 2014, p. 194; Alev Aktar, “Chic Staples,” *Entrepreneur*, September 2014, p. 22; “The Inc. 500,” *Inc.*, September 2014, p. 181; Dinah Eng, “The Sweet Smell of Jo Malone’s

Success,” *Fortune*, February 24, 2014, pp. 17–20; David Campbell, “How I Turned Old Containers into a Portable Party,” *Inc.*, September 2014, p. 131; “Nature or Nurture? Decoding the DNA of the Entrepreneur,” Ernst & Young, 2011, pp. 14–21; Amy Clarke Burns, “The Buzz About Honey,” *Greenville News*, January 20, 2013, pp. 1E–2E; Lillia Callum-Penso, “An Original by Design,” *Greenville News*, October 14, 2012, pp. 1E–2E; Lillia Callum-Penso, “Feeding a Passion,” *Greenville News*, November 11, 2012, pp. 1E–2E; Julia Savacool, “The Sweet Success of Sisters,” *USA Weekend*, August 3–5, 2012, pp. 6–7; Amy Clarke Burns, “Riding the Tide,” *Greenville News*, August 5, 2012, pp. 1E–2E; Lillia Callum-Penso, “Crafting a Culture,” *Greenville News*, July 29, 2012, pp. 1E–2E.

age 40 ranges from \$50 billion (Mark Zuckerberg, founder of Facebook) to \$270 million (Kyle Vogt, co-founder of Justin.tv, Twitch, and Cruise Automation).<sup>62</sup> People who own their own businesses are four times more likely to be millionaires than those who are employed by others. According to Russ Alan Prince and Lewis Schiff, authors of *The Middle Class Millionaire*, more than 80 percent of middle-class millionaires, those people with a net worth between \$1 million and \$10 million, own their own businesses or are part of professional partnerships. (They also work an average of 70 hours a week.)<sup>63</sup> Indeed, the typical millionaire’s business is not a glamorous, high-tech enterprise; more often, it is something much less glamorous—scrap metal, welding, auctioneering, garbage collection, and the like.



### ENTREPRENEURIAL PROFILE: Evan Spiegel and Bobby Murphy: Snapchat

Evan Spiegel and Bobby Murphy met while attending Stanford University, where as freshmen they launched a business called FutureFreshmen, a business that never took off. In their junior year, they came up with the idea for a photo-sharing application they called Picaboo in which photos shared with friends would vanish from electronic devices and servers after a short time. The entrepreneurs changed the app’s name to Snapchat, which grew slowly at first and then exploded as millions of people began using it. In 2013, Spiegel and Murphy rejected an offer from Facebook to purchase Snapchat for \$3 billion. Today, Spiegel, whose net worth is \$2.1 billion, and Murphy, whose net worth is \$1.8 billion, own 15 percent of Snapchat, which is valued at \$16 billion.<sup>64</sup> ■

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

Playing a vital role in their local business systems and knowing that their work has a significant impact on the nation’s economy is yet another reward for entrepreneurs. Often, small business owners are among the most respected and most trusted members of their communities. Business deals based on trust and mutual respect are the hallmark of many established small companies. These owners enjoy the trust and recognition they receive from the customers and the communities they have served faithfully over the years. A recent Gallup survey reports that 67 percent of adults have confidence in small businesses, compared to just 21 percent who have confidence in big businesses and just 8 percent who have confidence in Congress.<sup>65</sup> Another survey by the Public Affairs Council reports that 68 percent of adults prefer doing business with a small local company that charges somewhat higher prices than a large national company that offers lower prices.<sup>66</sup>

### Opportunity to Do What You Enjoy and Have Fun at It

A common sentiment among small business owners is that their work *really* isn’t work. In fact, a survey by consulting firm Deloitte reports that 60 percent of business owners say they do not plan to retire from their businesses unless they are forced to because of health reasons!<sup>67</sup> Most successful entrepreneurs choose to enter their particular business fields because they have an interest in them and enjoy those lines of work. Many of them have made their avocations (hobbies) their vocations (work) and are glad they did! These entrepreneurs are living the advice Harvey McKay offers: “Find a job doing what you love, and you’ll never have to work a day in your life.”

The journey rather than the destination is the entrepreneur’s greatest reward. “Rather than have money be your primary motivator,” says Tony Hsieh, CEO of online shoe retailer Zappos, a company that Hsieh sold to Amazon for \$1.2 billion, “think about what you would be so passionate about doing that you’d be happy doing it for 10 years, even if you never made any money



from it. *That's* what you should be doing. Your passion is what's going to get you through the hard times. Your passion is going to be contagious and rub off onto employees and have a ripple effect on customers and business partners as well.”<sup>68</sup>



**ENTREPRENEURIAL PROFILE: Lily Wycoff: Lily Pottery** The first time Lily Wycoff worked with ceramics was in a high school art class, and immediately she was hooked. What she did not realize at the time was the role that her love for art and ceramics would play in her career. After studying art at Bob Jones University in Greenville, South Carolina, Wycoff dreamed of starting her own business but decided to play it safe and took a job in marketing. In her spare time, she still practiced her art, making pottery using a wheel and kiln at her home. In 2007, Wycoff partnered with two other artists to hold a show, which prompted her to make ceramic jewelry for the first time. The simple clay pendants on leather strands she made sold out quickly, and Wycoff knew that the potential for a business existed. She quit her marketing job and opened a studio in Greenville with her longtime friend and fellow artist Barb Blair. Today, Wycoff owns Lily Pottery and has two locations from which she sells jewelry made from ceramics, metal, and other materials as well as clothing and home accessories. Although her employees now make the individual pieces of jewelry, Wycoff creates all the designs and oversees every aspect of the process. Through Lily Pottery, Wycoff's vocation is merely an extension of her avocation, and she enjoys making a living doing what she loves.<sup>69</sup> ■

### LO3B

Describe the drawbacks of entrepreneurship.

## The Potential Drawbacks of Entrepreneurship

Entrepreneurship is not a suitable career path for the timid. Individuals who prefer the security of a steady paycheck, a comprehensive benefits package, a two-week paid vacation, and the support of a corporate staff probably should not go into business for themselves. Owning a business has many benefits and provides many opportunities, but anyone planning to enter the world of entrepreneurship should be aware of its potential drawbacks. “Building a start-up is incredibly hard, stressful, chaotic, and—more often than not—results in failure,” says entrepreneur Eric Ries. “So why become an entrepreneur? Three reasons: change the world, make customers’ lives better, and create an organization of lasting value. If you want to do only one of these things, there are better options. Only start-ups combine all three.”<sup>70</sup> Let’s explore the “dark side” of entrepreneurship.

### Uncertainty of Income

Opening and running a business provides no guarantee that an entrepreneur will earn enough money to survive. Although the mean and median incomes for entrepreneurs are higher than those for employees, so is the *variability* of entrepreneurs’ incomes. In other words, some entrepreneurs earn far more through their companies than they could working for someone else, but other entrepreneurs’ businesses barely earn enough to provide them with an adequate income. In the early days of a start-up, a business often cannot provide an attractive salary for its owner and meet all its financial obligations, and the entrepreneur may have to live on savings or a spouse’s income. The regularity of income that comes with working for someone else is absent because the owner is always the last one to be paid. A recent survey by Citibank reports that 54 percent of small business owners have gone without a paycheck to help their businesses survive.<sup>71</sup>

### Risk of Losing Your Entire Investment

Business failure can lead to financial ruin for an entrepreneur, and the small business failure rate is relatively high. According to research by the Bureau of Labor Statistics, 34 percent of new businesses fail within 2 years, and 52 percent shut down within 5 years. Within 10 years, 66 percent of new businesses have folded.<sup>72</sup> A failed business can be not only financially but also emotionally devastating. According to the Global Entrepreneurship Monitor, fear of failure prevents about 30 percent of adults in the United States from attempting to launch a business. Fear of failure equals entrepreneurial paralysis.<sup>73</sup> To Craig Dubitsky, founder of Hello, an oral-care-product manufacturer in Montclair, New Jersey, being scared is simply part of being an entrepreneur. However, he says, what is even scarier than launching a business is the regret associated with *not* bringing a business idea to life. Entrepreneurs simply conquer their fear and go “all in.”<sup>74</sup>

Before launching their businesses, entrepreneurs should ask themselves whether they can cope financially and psychologically with the consequences of failure. They should

consider the risk–reward trade-off before putting their financial and mental well-being at risk:

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

Just weeks after Jim Snediker’s online flash sale business, Left of Trend, failed, he launched with four friends another business, Stock Mfg. Company, a company that manufactures premium men’s casual clothing in a historic Chicago factory and sells directly to customers through its Web site and periodic pop-up shops across the United States.<sup>75</sup>

### Long Hours and Hard Work

Business start-ups usually demand long hours and hard work from their owners. The average small business owner works 51 hours a week, compared to the 40.2 hours per week the typical U.S. production employee works.<sup>76</sup> Entrepreneurship is not a 9-to-5 job. A survey by OnDeck reports that 9 out of 10 business owners perform at least some work on weekends, and 80 percent report continuing to work in the evenings after leaving their businesses.<sup>77</sup> Adam Warren, founder of Syinc.tv and Sportyourself, companies that allows users to incorporate links to retailers’ Web sites for the products that appear in their online photographs and receive payment when someone purchases a tagged item, says that his workday typically starts at 6:30 A.M. and does not end until 10 P.M. or later. “I’m thinking about the business all the time, but I don’t see it as work. If you are passionate about your work, it’s what you want to be doing anyway.”<sup>78</sup>

In many start-ups, six- or seven-day workweeks with no paid vacations are the *norm*. A recent survey by Manta reports that only 43 percent of small business owners plan to take a summer vacation of at least one week. The primary reason entrepreneurs don’t take vacations? They have no one to cover their workload.<sup>79</sup> The demands of owning a business make achieving a balance between work and life difficult for entrepreneurs. Sleep researcher James Maas of Cornell University estimates that entrepreneurs lose 700 hours of sleep in the year they launch their companies, which is equivalent to the amount of sleep that a parent loses in the first year of a baby’s life.<sup>80</sup> Because they often must do everything themselves, owners experience intense, draining workdays. “I’m the owner, manager, secretary, and janitor,” says Cynthia Malcolm, who owns a salon called the Hand Candy Mind and Body Escape in Cheviot, Ohio.<sup>81</sup> Many business owners start down the path of entrepreneurship thinking that they will own a business only to discover later that the business owns them!

### Lower Quality of Life Until the Business Gets Established

The long hours and hard work needed to launch a company can take their toll on the remainder of an entrepreneur’s life. Nearly three out of four (72 percent) business owners say that they have made significant personal sacrifices in their personal lives for their businesses. The most common regret: not spending enough time with their loved ones. (Interestingly, not starting their businesses sooner was second.)<sup>82</sup> Business owners often find that their roles as husbands and wives or fathers and mothers take a backseat to their roles as company founders. Marriages and friendships are too often casualties of small business ownership.



**ENTREPRENEURIAL PROFILE: Tim Askew: Corporate Rain International** Tim Askew, founder of Corporate Rain International, a provider of sales outsourcing services based in New Rochelle, New York, compares being married and an entrepreneur to standing with one foot atop two trains going in the same direction but moving farther apart. Askew and his wife of 16 years divorced not long after he started his business. Looking back, Askew admits that his first love was his company. He was so focused on building a successful business that he rarely joined his family on vacations, and when he was with his family, he was so preoccupied with thoughts of his company that he was mentally and emotionally absent.<sup>83</sup> ■

### High Levels of Stress

Starting and managing a business can be an incredibly rewarding experience, but it also can be a highly stressful one. Entrepreneurs often have made significant investments in their companies, have left behind the safety and security of a steady paycheck and benefits, and have mortgaged everything they own to get into business. Most start-ups take months, sometimes years, before they generate positive cash flow, which means their founders must continue to feed them cash during that stressful time. Rescue One Financial, a financial services company based in Irvine, California, generates more than \$32 million in annual sales and is profitable, but in the early days, founder Bradley Smith had to borrow from his retirement account, max out a bank line of credit, borrow money from his father, and even sell his Rolex watch to keep the company from folding. Looking back, he says he was a psychological wreck, but his perseverance paid off in the form of a fast-growing, highly successful business.<sup>84</sup>

Business failure often means total financial ruin for entrepreneurs and their families, and that creates intense levels of stress and anxiety. Sometimes entrepreneurs unnecessarily bear the burden of managing alone because they cannot bring themselves to delegate authority and responsibility to others in the company, even though their employees are capable.

### Complete Responsibility

It's great to be the boss, but many entrepreneurs find that they must make decisions on issues about which they are not really knowledgeable. Many business owners have difficulty finding advisers. When there is no one to ask, the pressure can build quickly. The realization that the decisions they make are the cause of their company's success or failure has a devastating effect on some people. Small business owners realize quickly that *they* are the business.

### Discouragement

Launching a business is a substantial undertaking that requires a great deal of dedication, discipline, and tenacity. Along the way to building a successful business, entrepreneurs run headlong into many different obstacles, some of which appear to be insurmountable. In the face of such difficulties, discouragement and disillusionment are common emotions. Successful entrepreneurs know that every business encounters rough spots along the way, and they wade through difficult times with lots of hard work and an abundant reserve of optimism.

Despite the challenges that starting and running a business pose, entrepreneurs are very satisfied with their career choices. A recent Gallup poll survey reports that 84 percent of small business owners say that if they were choosing a career again, they would still become small business owners.<sup>85</sup> Many entrepreneurs are so happy with their work that they want to continue it indefinitely. In fact, 62 percent of entrepreneurs polled in a recent survey say that they never intend to fully retire, choosing instead to work either full- or part-time, and 4 percent say that they intend to start a new business.<sup>86</sup>

#### LO4

Explain the forces that are driving the growth of entrepreneurship.

## Behind the Boom: What's Feeding the Entrepreneurial Fire

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

- **Entrepreneurs as heroes.** An intangible but very important factor is the attitude that Americans have toward entrepreneurs. As a nation, we have raised them to hero status and have held out their accomplishments as models to follow. Business founders such as Kevin Plank (Under Armour), Mark Zuckerberg (Facebook), Oprah Winfrey (Harpo Productions and OWN [the Oprah Winfrey Network]), Jeff Bezos (Amazon), Robert Johnson (Black Entertainment Television), and Steve Jobs (Apple) are to entrepreneurship what Stephen Curry, Michael Phelps, and Tom Brady are to sports. The media reinforce entrepreneurs' hero status with television shows such as *Shark Tank* and *Dragons' Den*, both of which feature entrepreneurs who pitch their ideas to a panel of tough business experts who have the capital and the connections to make a budding business successful. More than 10 million

people in 170 countries on six continents participate in 35,000 activities during Global Entrepreneurship Week, a celebration of entrepreneurship that is sponsored by the Kauffman Foundation.<sup>87</sup>

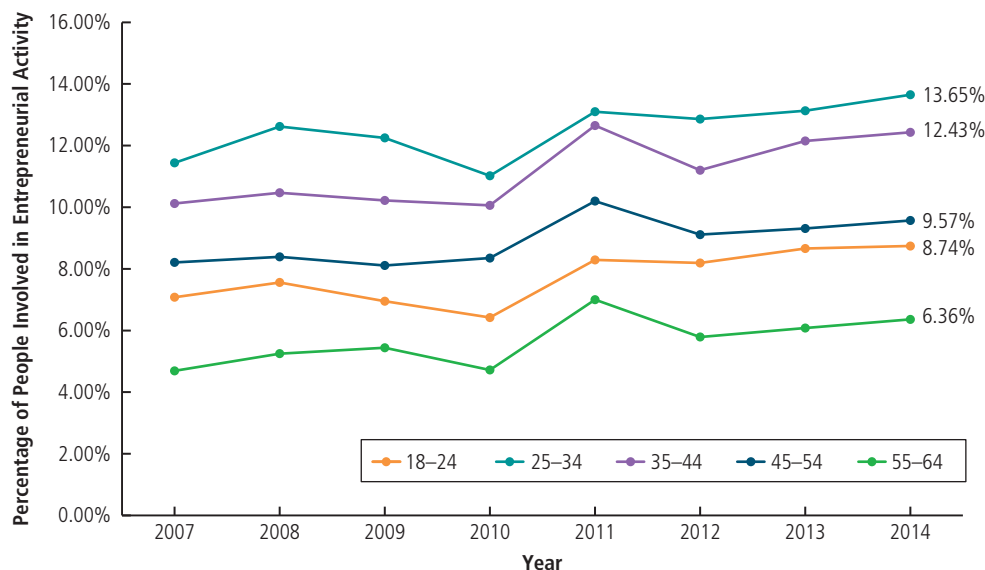
- **Entrepreneurial education.** Colleges and universities have discovered that entrepreneurship is an extremely popular course of study. Disillusioned with corporate America's downsized job offerings and less promising career paths, a rapidly growing number of students see owning a business as their best career option. Growing numbers of students enroll in college knowing that they want to start their own companies rather than consider entrepreneurship as a possibility later in life; indeed, many are starting companies while they are in college. More than 400,000 students are enrolled in entrepreneurship courses, and 491 colleges and universities offer majors in entrepreneurship.<sup>88</sup> Many colleges and universities have difficulty meeting the demand for courses in entrepreneurship and small business. A recent survey by CreativeLive demonstrates the importance of entrepreneurship education; 34 percent of employed adults who want to start their own businesses say that not knowing where to start the process is a major barrier to their entrepreneurial dreams.<sup>89</sup>



**ENTREPRENEURIAL PROFILE: Gabe Jacobs, Amadou Crookes, and Mario Gomez-Hall: Cymbal**

In their senior year at Tufts University, Gabe Jacobs, Amadou Crookes, and Mario Gomez-Hall started a business, Cymbal, built around a music app they created to connect the digital music experience with social media. (Gomez-Hall and Crookes turned down job offers at Microsoft and Google to focus on building the company.) They describe Cymbal as "music discovery powered by friends, not algorithms" because, like Instagram, it includes a home feed, personal profile, followers, likes, comments, hashtags, and tags. A user's home feed becomes a living playlist that his or her friends help develop by sharing their favorite songs of the moment. The result, the cofounders say, is the soundtrack of your life. Within a few months, more than 17,000 users downloaded Cymbal, clearing the path for Jacobs, Crookes, and Gomez-Hall to raise \$1.1 million in venture capital to fuel the company's growth.<sup>90</sup> ■

- **Demographic factors.** Globally, the rate of entrepreneurial activity is highest among people between the ages of 25 and 44 (see Figure 1.4). In the United States, the number of people in that age range currently is more than 84 million (26.4 percent of the U.S. population), which provides a strong demographic base for entrepreneurship.
- **Shift to a service economy.** The service sector accounts for 82.5 percent of the jobs and 80.1 percent of the private sector gross domestic product (GDP) in the United States, both



**FIGURE 1.4**  
**Global Entrepreneurial Activity by Age Group**

Source: Based on Zoltán J. Ács, László Szerb, and Erkki Autio, *Global Entrepreneurship Index, 2016*, Global Entrepreneurship and Development Institute, p. 2.



of which represent a sharp rise from just a decade ago.<sup>91</sup> Because of their relatively low start-up costs, service businesses have become very popular among entrepreneurs. The booming service sector continues to provide many business opportunities, from educational services and computer maintenance to pet waste removal and smart phone repair.

- **Technology advancements.** With the help of modern technology such as portable computers and tablets, smart phones, copiers, 3-D printers, cloud storage, and productivity, communication, and social media apps, even one person working at home can look like a big business. At one time, the high cost of such technological wizardry made it impossible for small businesses to compete with larger companies that could afford the technology. Today, however, powerful computers, tablets, smart phones, and communication equipment are priced within the budgets of even the smallest businesses and have drastically reduced the cost of launching a business. Noting how technology has made testing an idea and starting a business much easier, David Kappos, head of the U.S. Patent and Trademark Office, says, “The distance between an idea and the marketplace has decreased dramatically.”<sup>92</sup> With modern technology, entrepreneurs can run their companies from their homes—or almost anywhere—very effectively and look like any *Fortune* 500 company to customers and clients. Edith Elliott cofounded Noora Health, a company started at Stanford University that teaches patients and their family members simple healthcare skills that improve clinical outcomes and reduce readmissions after hospital visits. She splits her time between Stanford, California, where the company’s headquarters are located, Boston, Massachusetts, and Bangalore, India.<sup>93</sup>
- **Independent lifestyle.** Entrepreneurship fits the way Americans want to live—with an independent and self-sustaining lifestyle. People want the freedom to choose where they live, the hours they work, and what they do. Although financial security remains an important goal for most entrepreneurs, many place top priority on lifestyle issues, such as more time with family and friends, more leisure time, and more control over work-related stress.
- **Outsourcing.** Entrepreneurs have discovered that they do not have to do everything themselves. Because of advances in technology, entrepreneurs can outsource many of the operations of their companies and retain only those in which they have a competitive advantage. Modern entrepreneurs use the “gig economy” to purchase the services they need on demand, eliminating the necessity of hiring staff to perform those duties. Doing so enhances their flexibility and adaptability to ever-changing market and competitive conditions.
- **The Internet, cloud computing, and mobile marketing.** The proliferation of the Internet, the vast network that links computers around the globe and opens up oceans of information to its users, has spawned thousands of entrepreneurial ventures since its beginning in 1993. **Cloud computing**, Internet-based subscription or pay-per-use software services that allow business owners to use a variety of business applications, from database management and inventory control to customer relationship management and accounting, has reduced business start-up and operating costs. Fast-growing small companies can substitute cloud computing applications for networks of computers and large office spaces, which allows entrepreneurs to build their companies without incurring high overhead costs.

#### cloud computing

Internet-based subscription or pay-per-use software services that allow business owners to use a variety of business applications, from database management and inventory control to customer relationship management and accounting.

Online retail sales, which currently account for 11 percent of total retail sales, are forecast to continue to grow rapidly (see Figure 1.5), creating many opportunities for Web-savvy entrepreneurs.<sup>94</sup> Apparel, accessories, books, music, travel services, event tickets, and electronic devices are among the best-selling items on the Internet, but entrepreneurs are learning that they can use this powerful tool to sell just about anything, including soil samples from Roswell, New Mexico, where a UFO allegedly crashed in 1947 (complete with a certificate of authenticity)!<sup>95</sup> In fact, entrepreneurs are using the Web to sell services such as a matching service for people and dogs in need of a forever home (BarkBuddy), a service that rents upscale port-a-johns for swanky events (ElizaJ), and products such as customized tea blends (Design A Tea) and travel-size kits of individually packaged products that come in hundreds of variations (Minimus).<sup>96</sup>

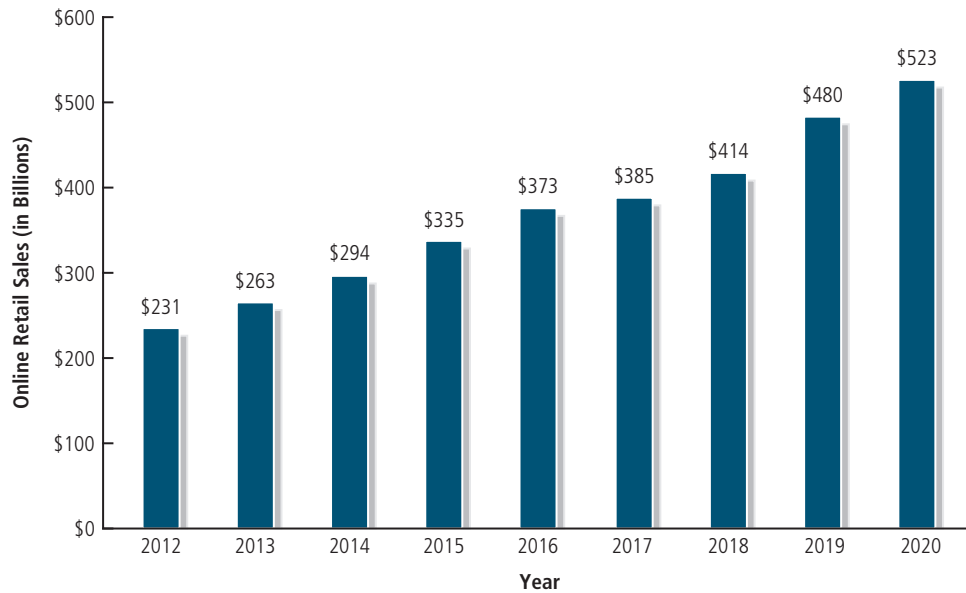


FIGURE 1.5

**U.S. Online Retail Sales**

Source: Based on data from Forrester Research, 2016.

Currently, about 54 percent of small businesses have Web sites, double the number that had Web sites in 1997, and 24 percent of business owners without Web sites say that they plan to build them in the near future.<sup>97</sup> Yet, 22 percent of small business owners say that they are not likely to launch a Web site. The most common reasons? A Web site is not relevant to their businesses, and the cost of creating and maintaining a site is too high.<sup>98</sup> Many entrepreneurs see the power of **mobile computing** and are putting it to use, but some small businesses have been slow to adopt the technology. More than 50 percent of Web searches are conducted on mobile devices, but 32 percent of small business Web sites are not mobile friendly.<sup>99</sup> Business owners whose Web sites are not mobile friendly are sacrificing sales; mobile e-commerce sales make up 30 percent of total e-commerce retail sales.<sup>100</sup> “It’s almost as bad not to have a mobile-friendly Web site as it is not to have a site at all,” says Max Elman, founder of Razorfrog Web Design.<sup>101</sup>

**mobile computing**

connecting wirelessly to a centrally located computing system via a small, portable communication device.



**ENTREPRENEURIAL PROFILE: Antonio Swad: Pizza Patrón** Pizza Patrón, a pizza chain of nearly 100 locations with a Latino flair founded in 1986 by Antonio Swad, recently updated its Web site with a responsive design that allows it to configure properly on devices of any size, including tablets and smart phones. The company, which is based in Dallas, Texas, made the move in response to customers’ preference for placing pizza orders using mobile devices. Placing food orders from mobile devices is common, with 72 percent of mobile users having placed food orders via their smart phone or tablet.<sup>102</sup> Since making the change, traffic to Pizza Patrón’s Web site is up 50 percent, and more than 75 percent of visits to the site were from users on mobile devices.<sup>103</sup> ■

- **International opportunities.** No longer are small businesses limited to pursuing customers within their own borders. The shift to a global economy has opened the door to tremendous business opportunities for entrepreneurs willing to reach across the globe. Although the United States is an attractive market for entrepreneurs, approximately 95 percent of the world’s population and more than 70 percent of its purchasing power lie outside U.S. borders.<sup>104</sup> The emergence of potential markets across the globe and crumbling barriers to international business because of trade agreements have opened the world to entrepreneurs who are looking for new customers. Whereas companies once had to grow into global markets, today small businesses can have a global scope from their inception. Called **micromultinationals**, these small companies focus more on serving customers’ needs than on the countries in which their customers live. More than 297,000 small businesses export goods and services. In fact, small businesses make up 98 percent of all businesses engaged in exporting, yet they account for only 34 percent of the nation’s export sales.<sup>105</sup>

**micromultinationals**

small companies that operate globally from their inception.

Many small companies that could export do not take advantage of export opportunities, often because their owners don't know how or where to start an export initiative. Although regional unrest and recessions remain challenges to international trade, global opportunities for small businesses have a long-term positive outlook.

Although going global can be fraught with dangers and problems, many entrepreneurs are discovering that selling their products and services in foreign markets is really not so difficult. Small companies that have expanded successfully into foreign markets tend to rely on the following strategies:

- Researching foreign markets thoroughly
- Focusing on a single country initially
- Utilizing government resources designed to help small companies establish an international presence
- Forging alliances with local partners



#### ENTREPRENEURIAL PROFILE: Jonathan Mercado: Blue Orange Pottery

In 2011, Jonathan Mercado, president of Blue Orange Pottery, a family business in Laredo, Texas, that makes an expansive line of innovative home and garden décor, decided to expand the company's sales efforts beyond the domestic small boutique shops and large retailers that carried its products. Working with the International Trade Center in San Antonio, Blue Orange Pottery now exports to Canada, Switzerland, Australia, and Germany and is looking for new countries to target. Since beginning its export initiative, Blue Orange Pottery's sales have increased 30 percent.<sup>106</sup> ■

#### LO5

Explain the cultural diversity of entrepreneurship.

## The Cultural Diversity of Entrepreneurship

As we have seen, virtually anyone has the potential to become an entrepreneur. Indeed, diversity is a hallmark of entrepreneurship. We now explore the diverse mix of people who make up the rich fabric of entrepreneurship.

### Young Entrepreneurs

Young people are enthusiastically embracing entrepreneurship as a career choice. Indeed, nearly half of all entrepreneurs globally are between the ages of 25 and 44.<sup>107</sup> A Gallup survey reports that 40 percent of students in grades 5 through 12 say that they plan to start their own businesses—and 38 percent said that their goal is to invent something that changes the world. (The percentage of minority students who expressed a desire for a career in entrepreneurship, 50 percent, was higher than for white students, 37 percent.)<sup>108</sup> Although entrepreneurial activity tends to increase with age, many members of the Millennial generation (or Generation Y, those born between 1981 and 2000) show high levels of interest in entrepreneurship. Disenchanted with their prospects in corporate America and willing to take a chance at controlling their own destinies, scores of young people are choosing entrepreneurship as their initial career path. People between the ages of 15 and 29, more than 65 million strong, are deciding that owning their own companies is the best way to create job security and to achieve the balance between work and life that they seek.



Courtesy of Are you Kidding?



#### ENTREPRENEURIAL PROFILE: Sebastian Martinez: Are You Kidding?

At age 5, Sebastian Martinez had a passion for wacky socks that he turned into a business, Are You Kidding?, that designs and markets colorful, funky socks. With the help of his older brother Brandon, 7, who is the company's director of sales, Are You Kidding? now generates annual sales of \$15,000 through its Web site. Now 7 and 9, the Martinez brothers make sure the company lives up to its social responsibility, donating a portion of each sale to the American Cancer Society. The company recently donated \$3,000 to the charity. Because of young people such as the Martinezes, the future of entrepreneurship looks very bright.<sup>109</sup> ■



## You Be the Consultant

### College: The Ideal Place to Launch a Business

For growing numbers of students, college is not just a time of learning, partying, and growing into young adulthood; it is fast becoming a place for building a business. Today, more than 2,300 colleges and universities offer courses in entrepreneurship and small business management, and many of them have trouble meeting the demand for these classes. Today, entrepreneurship has become a mainstream activity on college campuses around the globe. Greater numbers of students are pursuing careers in entrepreneurship and see their college experience as an opportunity to get an early start not only by studying entrepreneurship but also by putting what they learn into practice. Bill Aulet, head of the Martin Trust Center for MIT Entrepreneurship, says that faculty members who teach entrepreneurship must nurture the spirit of a pirate in their students while teaching them how to execute their start-up plans with the precision of a Navy SEAL. In addition to regular classroom courses, colleges increasingly are building an extra dimension in their entrepreneurship programs, including internships with start-ups, consulting jobs with small businesses, mentoring relationships with other entrepreneurs, networking opportunities with potential investors, and participation in business plan competitions. Allan R. Cohen, the dean of the graduate program at Babson College, says that entrepreneurial education is a contact sport, and many colleges are adding boot camp–like courses to their curricula.

As the following examples prove, many college students expect to apply the entrepreneurial skills they are learning in their classes and the abundant resources available to them by starting businesses while they are still in college. They also are a testament to college students' creativity and work ethic.

#### Cavebox

Like many other college students, Storm Anderson, 22, and Samuel George, 27, led busy lives, participating in many on- and off-campus activities at Indiana University. Their hectic schedules meant that they didn't have much time for shopping, and they often ran out of their personal care items. The young entrepreneurs say they had neither the time nor the inclination to keep track of their stock of toothpaste and realized that other young men felt the same way. In early 2014, Anderson and George launched Cavebox, a service aimed at 18- to 30-year-old men that ships one- or two-month supplies of personal hygiene products for as little as \$25 so that men never have to leave their caves again to shop for personal care items. Customers can customize their Caveboxes, which include body, oral, skin, and hair care, along with other items, with their favorite brands, and shipping is free for boxes that cost \$30 or more. The company's bulk purchases allow it to keep prices affordable. Anderson and George also offer a travel-size bag called the Cavebag for the man-on-the-go.

#### ProfilePasser

Many high school athletes dream of being recruited by a bevy of colleges, but the college recruiting process is extremely inefficient,

and coaches often overlook talented athletes, who get only a handful of scholarship offers. That was the position that Samantha Weber found herself in during her last year of high school. Although things worked out well for Weber, who enrolled in Grove City College in Grove City, Pennsylvania, where she played varsity soccer for four years, the student-athlete decided to do something to help improve the recruiting process. During her senior year at Grove City College, while playing soccer and taking a full schedule of classes, Weber, just 21, created an athletic recruiting app, ProfilePasser, that connects high school athletes and college coaches at showcase tournaments. Student-athletes create their own profiles using the app, and when college coaches check in at a tournament, they have access to every player's profile and can use a search function to find athletes who fit a particular set of characteristics. ProfilePasser was one of only nine start-ups recently accepted into AlphaLab, Pittsburgh's leading business accelerator. Weber already has raised more than \$25,000 in private financing and has attracted a "who's who" group of advisors, including her older sister, Alexa Andrzejewski, founder of Foodspotting, a company that OpenTable recently bought for \$10 million.

#### FiscalNote

Students Jonathan Chen (University of Maryland), Timothy Hwang (Princeton University), and Gerald Yao (Emory University), all 21, created a company, FiscalNote, that uses artificial intelligence and big data to unlock the massive amounts of data created by governments and courts in all 50 states, the District of Columbia, and Congress. FiscalNote's algorithms and statistical analysis tools allow clients to identify meaningful trends in government data and to predict with 90 percent accuracy whether proposed legislation will become law. The young entrepreneurs already have raised \$1.2 million in equity capital from several high-profile investors.

A study by researchers at Babson College shows that students who take at least one entrepreneurship course are more likely to actually become entrepreneurs than those who do not. College can be one of the best places to start a business, but doing so requires discipline, good time management, and a willingness to make mistakes and learn from them. The recipe for success is the same as for entrepreneurs everywhere: Try something. Fail some. Learn something. Try again. Repeat.

1. One venture capitalist says that entrepreneurship can't be taught in a regular classroom any more than surfing can. His view is that students should get their feet wet in the real world of entrepreneurship. What do you think?
2. In addition to the normal obstacles of starting a business, what other barriers do collegiate entrepreneurs face?
3. What advantages do collegiate entrepreneurs have when launching a business?

*(continued)*



## You Be the Consultant *(continued)*

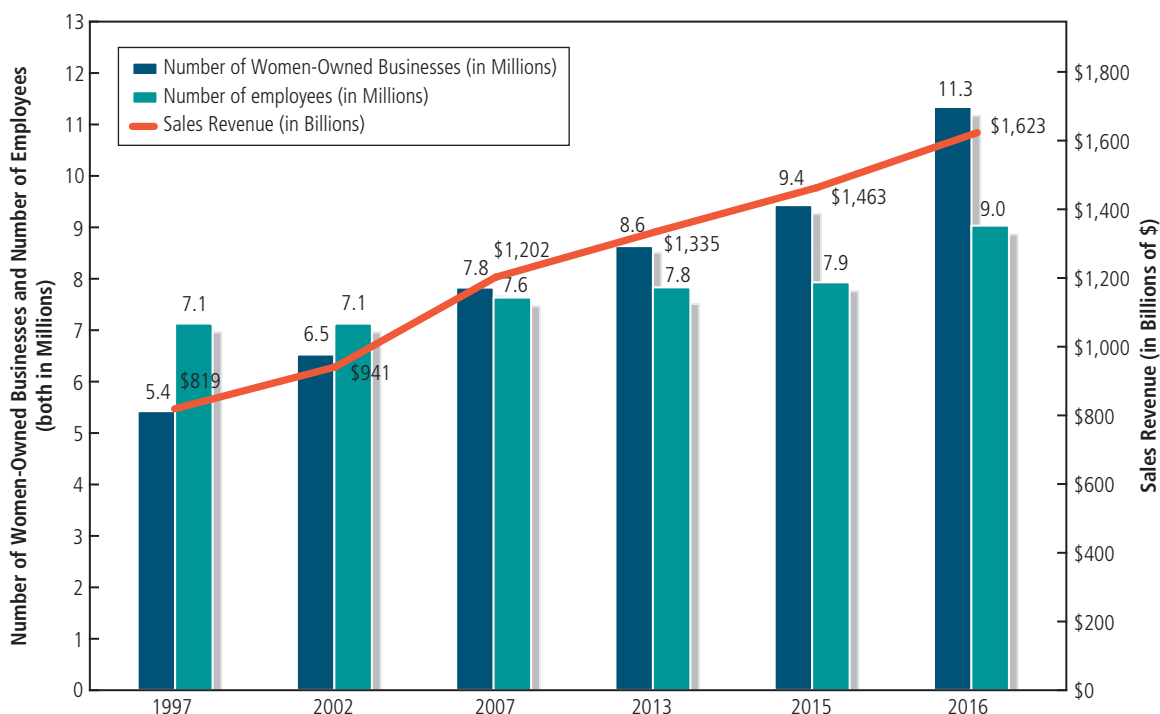
4. What advice would you offer a fellow college student who is about to start a business?
5. Work with a team of your classmates to develop ideas about what your college or university could do to create a culture that supports entrepreneurship on your campus or in your community.

Sources: Based on Diana Ransom, "America's Coolest College Start-ups 2014," *Inc.*, 2014, [www.inc.com/diana-ransom/coolest-college-startups-2014.html](http://www.inc.com/diana-ransom/coolest-college-startups-2014.html); "About Us," Cavebox, 2014, <http://thecavebox.com/pages/about-us>; Emily Niklas, "Student's Recruiter App Helps Athletes," *The Collegian*, November 1, 2013, pp. 1, 10; "About Our Company," FiscalNote, 2014, [www.fiscalnote.com/about](http://www.fiscalnote.com/about); Bill Aulet, "Teaching Entrepreneurship Is in the Start-up Phase," *Wall Street Journal*, September 12, 2013, p. A17; Jason Dailey, "Born or Made?" *Entrepreneur*, October 2013, pp. 65–72; Stewart Thornhill, "The Wrong Way to Judge an Entrepreneurship Course," *Bloomberg Businessweek*, February 5, 2014, [www.businessweek.com/articles/2014-02-05/the-wrong-way-to-judge-an-entrepreneurship-course](http://www.businessweek.com/articles/2014-02-05/the-wrong-way-to-judge-an-entrepreneurship-course).

### Women Entrepreneurs

Despite years of legislative effort, women still face discrimination in the workforce. However, small business has been a leader in offering women opportunities for economic expression through entrepreneurship. Increasing numbers of women are discovering that the best way to break the "glass ceiling" that prevents them from rising to the top of many organizations is to start their own companies. Women entrepreneurs have even broken through the comic strip barrier. Blondie Bumstead, long a typical suburban housewife married to Dagwood, now owns her own catering business with her best friend and neighbor, Tootsie Woodley!

In the United States, the number of women-owned businesses is growing 1.5 times faster than the national average for all U.S. businesses.<sup>110</sup> Women now own 31.1 percent of all privately held businesses in the United States, but their companies generate just 12 percent of business sales.<sup>111</sup> Although women-owned business are smaller and far less likely to attract equity capital investments than those that men start, they are just as likely to survive as businesses owned by men.<sup>112</sup> In addition, their impact is anything but small. The more than 11.3 million women-owned companies in the United States employ more than 9 million workers and generate sales of nearly \$1.6 trillion a year (see Figure 1.6)!<sup>113</sup>



**FIGURE 1.6**  
**Characteristics of Women-Owned Businesses**

Source: Based on data from the 2016 State of Women-Owned Businesses Report, American Express OPEN, 2016, p. 3.

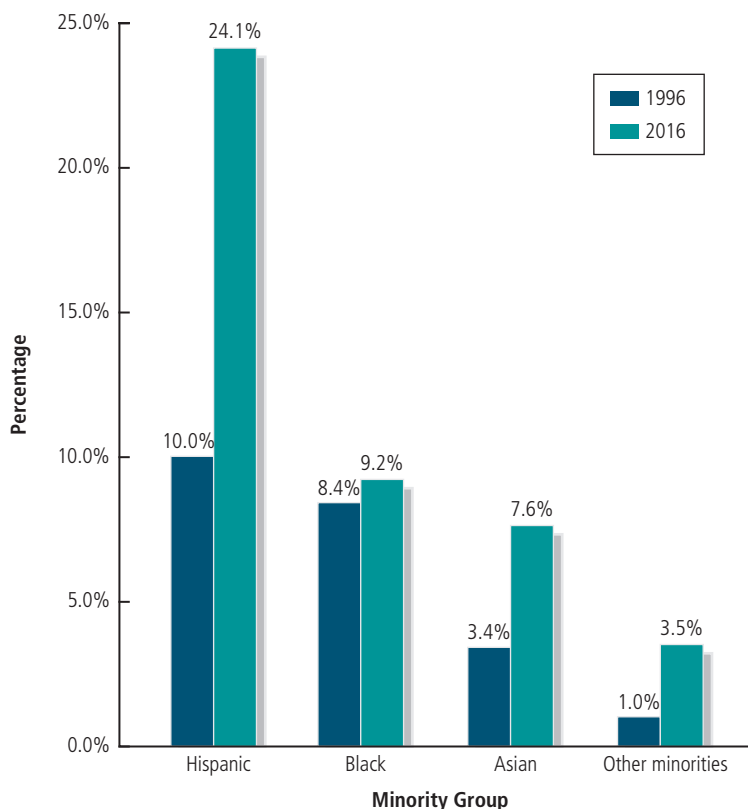


**ENTREPRENEURIAL PROFILE: Heather Tate McCartney: UV Couture** After Heather Tate McCartney's father was diagnosed with melanoma, an aggressive form of skin cancer, she became alarmed because she also enjoyed spending time in the sun. She used sunscreen, but research revealed that most people do not apply sunscreen properly or often enough to be effective. McCartney began swimming in T-shirts and wrapping herself in towels to block the sun's harmful ultraviolet (UV) rays. The look was less than fashionable, so she came up with a line of summer clothing called UV Couture that offers an ultraviolet protection factor of 50, which blocks 99 percent of the sun's harmful rays. (Regular clothing blocks only 6 percent of the harmful UV rays.) Today, UV Couture, based in Ontario, Canada, sells a clothing line that includes shirts, cover-ups, jackets, dresses, skirts, leggings, hoodies, and other items priced from \$39 to \$165 on its Web site and through retailers.<sup>114</sup> ■

## Minority Enterprises

Like women, minorities also are choosing entrepreneurship more often than ever before. Hispanics, African Americans, and Asians are most likely to become entrepreneurs. Hispanics own 12.0 percent of all businesses in the United States, African-Americans own 9.4 percent, and Asians own 6.9 percent.<sup>115</sup> Companies started by Asian entrepreneurs have a significantly higher success rate than those started by other minority entrepreneurs.<sup>116</sup> Hispanics represent the fastest-growing segment of the U.S. population, and Hispanic entrepreneurs represent the largest and fastest-growing segment of minority-owned businesses in the United States (see Figure 1.7). More than 3.3 million Hispanic-owned companies employ more than 1.9 million people and generate more than \$468 billion in annual sales.<sup>117</sup> The most recent Index of Startup Activity by the Kauffman Foundation shows that Hispanics are 59 percent more likely to start a business than whites.<sup>118</sup>

Minority entrepreneurs see owning their own businesses as an ideal way to battle discrimination, and minority-owned companies have come a long way in the last decade. Minority entrepreneurs own 29 percent of all businesses in the United States, generate \$1 trillion in annual



**FIGURE 1.7**  
Percentage of New Entrepreneurs in the U.S. by Minority Group, 1996 and 2016

*Source:* Based on data from Robert Fairlie, Arnobio Morelix, and Inara Tareque, The Kauffman Index of Startup Activity, Kauffman Foundation, August 2017, p. 31.