SEVENTH EDITION

Launching New Ventures

An Entrepreneurial Approach

Kathleen R. Allen

LAUNCHING NEW VENTURES

7e

LAUNCHING NEW VENTURES

An Entrepreneurial Approach

Kathleen R. Allen
University of Southern California

CENGAGE Learning®

Australia • Brazil • Mexico • Singapore • United Kingdom • United States

Launching New Ventures: An Entrepreneurial Approach, Seventh Edition
Kathleen R. Allen

Vice President, General Manager, Social Science & Qualitative Business: Erin Joyner

Product Director: Michael Schenk

Senior Product Manager: Jason Fremder

Content Developer: Christopher Santos

Product Assistant: Jamie Mack

Marketing Director: Kristen Hurd

Marketing Manager: Emily Horowitz

Marketing Coordinator: Christopher Walz

Art and Cover Direction, Production Management, and Composition: Lumina Datamatics

Intellectual Property

Analyst: Diane Garrity

Project Manager: Sarah Shainwald

Manufacturing Planner: Ron Montgomery

Cover Image: ©Ensuper /Shutterstock

Library of Congress Control Number: 2014955990

ISBN-13: 978-1-305-10250-7

Cengage Learning
20 Channel Center Street
Boston, MA 02210
USA

Cengage Learning is a leading provider of customized learning solutions with office locations around the globe, including Singapore, the United Kingdom, Australia, Mexico, Brazil, and Japan. Locate your local office at: **www.cengage.com/global**

Cengage Learning products are represented in Canada by Nelson Education, Ltd.

To learn more about Cengage Learning Solutions, **visit www.cengage.com**

Purchase any of our products at your local college store or at our preferred online store **www.cengagebrain.com**

Printed in the United States of America
Print Number: 01 Print Year: 2014

BRIEF CONTENTS

CONTENTS

Case Studies 453

Appendix 523

PREFACE

The sixth edition of this book came out in 2011 (copyright 2012), three years after the financial crash and well into a global economic downturn. A strong turnaround has yet to materialize and so entrepreneurs, who tend to thrive in negative circumstances, are still the hope for the economic future of most nations around the globe. As I noted in the previous edition, the developing world has wholeheartedly embraced entrepreneurship as a way to pull itself out of this enduring economic malaise. The world we live in today is vastly different from the one that existed when I wrote the first edition of *Launching New Ventures* in 1995 as we headed toward the dot com boom and continuing economic prosperity. Nevertheless, I would argue that the future of the United States and certainly the world lies with entrepreneurs who start the innovative businesses that create jobs and produce products and services to fuel the economy. For the foreseeable future, we will live in a world characterized by high degrees of uncertainty rather than the more predictable risk with which we had grown comfortable for several decades. Entrepreneurs are comfortable with risk because they can calculate probabilities and outcomes for the risks they face. Uncertainty, on the other hand, has no probabilities associated with it; it can't be calculated or predicted. To survive in a world of uncertainty, entrepreneurs must develop businesses that are fast, lean, adaptable, and flexible. Whether a new venture operates in the Internet world, the life sciences, manufacturing, or services, entrepreneurs need to compress the product development timeline, get to an early prototype quickly and cheaply with the minimum number of features needed to meet the customer's requirements, continually refine their business models, and find ways to get traction as fast as possible. An uncertain business environment means more than ever that the winners will be those who launch businesses as entrepreneurs in the true Schumpeterian sense of the word: disrupting what has gone before, looking for the unexpected, and creating new value.

The evidence for the benefits of entrepreneurship is clear when we study its impact on society and on the economy. However, the evidence is not so clear when we look at entrepreneurship in the academy. As educators and practitioners, we assume more benefits than we can actually quantify. In the preface of the previous edition, I referred to an important article written by one of the early leaders in the field. It bears repeating here because the problem persists. Researcher and Professor Dale Meyer wrote about the field of entrepreneurship as a discipline in a provocative article for the *Journal of Small Business*

Management called "The Reinvention of Academic Entrepreneurship." He lamented the lack of rigorous metrics for measuring the impact of entrepreneurship education on students and society, the heavy reliance on neoclassical economic paradigms, and the blurring of the boundaries between entrepreneurship and small business management. He called for more emphasis on creative, self-organizing processes that entrepreneurs employ to craft complex, adaptive business systems. I wholeheartedly agree with Meyer's assessment. Today, the term *entrepreneurship* has been diluted by overuse in contexts that have nothing to do with new venture creation. *Entrepreneur* is being co-opted by everyone, including the media, to describe what is more traditionally referred to as a small business owner, a successful musician, or an effective product manager. The rationale for this dilution is that if you think like an entrepreneur, you're an entrepreneur. I believe that this rationale confuses entrepreneurship with creativity and innovation. In every edition of *Launching New Ventures,* I have attempted to remain true to the Schumpeterian view of the entrepreneurial process as "creative destruction." Now, more than ever before, the world needs entrepreneurs, in the strictest sense of the word—those who challenge the way we think about business, who create innovative business models that solve new problems, and who excel at sense-and-respond processes in the face of great uncertainty.

With all the knowledge we now have about how to operate effectively in a global market, how to build successful companies with extraordinary valuations, and how to innovate, we still have so much more to learn. And that is perhaps why so many of us enjoy the field of entrepreneurship because it is messy, chaotic, and in a constant state of change. We are continually challenged to revise our ideas—what we knew to be true—in the face of almost daily changes in the countless variables that affect the complex launch and growth of a new business.

Launching New Ventures, Seventh Edition, represents the most current thought, ideas, and practices in the field of entrepreneurship. In fact, ever since its first edition, *Launching New Ventures* has endeavored to extend the boundaries of what we know about entrepreneurship and to celebrate the uniqueness and creativity of entrepreneurs.

CONTENT, ORGANIZATION, AND UNIQUE COVERAGE

Launching New Ventures is organized around the process of creating a startup, from the recognition of an opportunity to the launch of the business. It is designed to help readers organize and plan for venture creation by mentally (and sometimes physically) engaging in the various activities that entrepreneurs typically undertake. This book has never sought to be all things to all people. It has a very specific emphasis on pre-launch activities—those things that entrepreneurs do to prepare to start a business and secure their first customer. The reason for this emphasis is that the decisions made to prepare the business for launch will have a significant impact on how successful that launch is. So this book explores activities such as opportunity creation and feasibility analysis in

more depth than the average book on entrepreneurship. The book also takes a distinctly entrepreneurial view of new businesses as opposed to a small business perspective. In a complex, global world, new business owners, whether their business might be the next Google or simply a small restaurant, need to think like an entrepreneur. They need to be opportunity-focused, innovative, growth-oriented, and constantly looking for new ways to create and capture value for customers. Today the entrepreneurial mindset is essential for survival and growth.

Part One introduces the foundations of entrepreneurship and entrepreneurial opportunity, which are important to understanding the decisions that entrepreneurs make, the environment in which they make those decisions, and the tasks they must undertake before starting a new company. In Chapter 1, readers will learn the nature of entrepreneurial ventures and how they are distinct from other types of businesses as well as the role of entrepreneurship in the economy. Chapter 2 dispels many myths about entrepreneurs and helps readers understand the characteristics and behaviors that work for and against entrepreneurs. Readers also learn about the entrepreneurial mindset, which is so critical for a successful startup. Chapter 3 introduces the subject of opportunity and how entrepreneurs create and shape opportunities for themselves.

Part Two addresses the heart of entrepreneurial activity, the testing of a business model through feasibility analysis. It opens with Chapter 4, "Analyzing the Industry and Market" where readers will learn how to study an industry, the environment in which the new business will operate, and follows that with a discussion of how to effectively conduct market research to understand customer needs and levels of demand. Chapter 5 focuses on the design, development, and testing of a business model as well as how innovation happens in all the components of the business model. Chapter 6 explores the way entrepreneurs develop products and services; it considers product development using lean methodologies, prototyping, and the minimum viable product. Chapter 7 considers ways to protect a startup's assets through intellectual property rights. Chapter 8 looks at how to build an effective founding team and also discusses how to determine what gaps in experience and expertise may exist in the management team and how to compensate for them with such solutions as strategic alliances and independent contractors. Chapter 9 closes this part by addressing the startup resources entrepreneurs must gather and how to calculate the required capital and other resources needed to launch the venture and operate it until it achieves a positive cash flow from the revenues it generates.

Part Three deals with business design, those activities that take place once you know you have a feasible venture. It begins with Chapter 10, which describes how to move from a feasibility analysis to preparing a business or execution plan. Chapter 11 deals with the design of an entrepreneurial company, considering how entrepreneurial businesses are organized, how entrepreneurs determine the best business location, and how they develop their initial human resource capability. Chapter 12 focuses on how products and services are produced and addresses issues related to planning the startup operations of a new business, such as production, quality control, customer service, outsourcing, and managing the supply chain. Chapter 13 looks at the legal form of the

business and discusses the advantages and disadvantages of sole proprietorships, partnerships, and corporate forms. Chapter 14 deals with the role and implementation of the startup marketing plan and how to promote new products and services effectively with limited resources. It pays particular attention to the role of new media, including social networks and search engine marketing. The chapter also addresses personal selling and customer relationship management. Chapter 15 explores the increasingly important topics of vision, ethics, and social responsibility. The value system of a new business shapes the culture of the business and the image it will have to live up to as it builds its reputation. Readers will be challenged to define a vision for a new venture based on the values they believe to be important. They will also gain a greater understanding of the need for ethics and social responsibility in any business. Part Four explores planning for growth and change in the new organization. It begins with Chapter 16, which looks at how to fund a startup as well as a rapidly growing venture, including the cost and process of raising capital, venture capital, and the IPO market. Chapter 17 deals with exploration and exploitation growth strategies for entrepreneurial ventures. It also pays particular attention to growing by going global and concludes with a discussion of harvest and exit strategies.

SPECIAL FEATURES IN THE SEVENTH EDITION

The seventh edition contains a variety of features of value to instructors and readers.

1. *Chapter Objectives* highlight the key topics for each of the chapters.
2. Entrepreneur *Profiles* that begin each chapter provide real-life examples to illustrate the application of chapter concepts and to inspire readers. Smaller-scale examples are also scattered throughout the chapters to maintain the real-life tone of the book.
3. *"Global Insights"* and *"Social Entrepreneurship: Making Meaning" boxed inserts* highlight additional examples, companies, and organizations that have taken a global or a socially responsible approach to entrepreneurship.
4. The *New Venture Action Plan* serves as a reminder of the tasks that need to be completed at particular stages of the entrepreneurial process.
5. *Questions on Key Issues* at the end of each chapter provoke interesting discussions.
6. *Experiencing Entrepreneurship* is a series of activities at the end of each chapter that give readers a chance to learn about entrepreneurship by getting involved in entrepreneurial activities and interacting with entrepreneurs and others in an industry of special interest to the reader.
7. Four new *Case Studies* have been added to the seventh edition to reflect a wider variety of businesses and types of entrepreneurs. The cases are followed by discussion questions.

NEW TO THIS EDITION

The following are the major changes to the seventh edition.

Overall Changes

- The seventh edition has some changes in chapter order for better flow.
- Chapter 6 from the fifth edition has been split into two chapters to make way for a more in-depth treatment of prototyping and the minimum viable product (now Chapter 6) and a more in-depth treatment of intellectual property (now Chapter 7). Chapters 15 and 16 from the fifth edition have been combined to present a complete discussion of funding for both startup and growth (Chapter 16), and Chapters 17 and 18 from the fifth edition have been combined to reflect the natural relationship of growth and change (Chapter 17). The seventh edition now has 17 chapters.
- The seventh edition has eight cases, four of which are new to this edition and reflect companies started and built since 2006. Command Audio, Google Inc., Homerun.com and B2P were retained from the previous edition.
- More international and environmental/sustainability examples have been included.
- Examples and data have been updated; most of the beginning Profiles, as well as a most of the boxed inserts, are new or have been revised to reflect current company data.

Chapter by Chapter Changes

- Chapter 1: All statistics have been updated, as well as the inclusion of the most recent market trends: digital anonymity, the return to domestic manufacturing, big data, and the Lean Startup movement. The opening Profile on WhatsApp and the Social Entrepreneurship box on Angaza are new for this edition.
- Chapter 2: A new Global Insights box features Nordic entrepreneurs who started born global companies as well as new examples in all the chapter sections and updated statistics. Chapter 3: Profile 3.1 presents a new story of young British entrepreneur Nick D'Aloisio. The new chapter title, Creating an Opportunity, underscores the proactive nature of opportunity for entrepreneurs. They don't wait for opportunity; they create it. The chapter has been reorganized to include a new section on opportunity/ideation and a more substantial treatment of the problem-solving process.
- Chapter 4: This chapter now focuses on industry and market analysis, which was Chapter 5 from the sixth edition, to better prepare readers for the business model discussion in Chapter 5. The profile on Gemvara has been enhanced and updated and a new Social Entrepreneurship Box on Medic Mobile has been added. All resources have been updated, new examples included, and a new figure describing an ethnographical approach to customer discovery and solution validation has been included. Chapter 5: This chapter focuses exclusively on business model development. A new opening Profile

showcases Amazon.com as a business model innovator and a new Global Insights Box looks at business models in the developing world. The chapter features an in-depth treatment of hypothesis testing and adds a new section on innovating with business models. There are a number of new figures including a revised business model canvas that incorporates the work of both Alex Osterwalder and Ash Maurya.

- Chapter 6: This chapter was renamed "Prototyping and Validating a Solution" to reflect an emphasis on product design and development issues. Intellectual property now has its own chapter. New box features include Profile 6.1 about an online social learning company Grockit and a Global Insights box on APOPO. In addition to updating examples, the chapter features a new chapter section and associated figure on product development tradeoffs as well as an in-depth discussion of the minimum viable product.
- Chapter 7: This chapter is devoted to intellectual property and ways to protect the startup's assets. It opens with a new profile on the trademark infringement case between Pinterest and Pintrips and includes a new Global Insights Box on intellectual property in China. All statistics and laws have been updated with more current examples.
- Chapter 8: This chapter is now about the founding team. It opens with a new profile on Fandeavor and includes a new Social Entrepreneurship Box on Vera Solutions. The chapter incorporates important research on founding teams conducted by Noam Wasserman and addresses the issue of entrepreneur scalability. Chapter 9: Now titled "Calculating Startup Capital Requirements," has been completely reorganized to move more effectively through the process of determining the amount of funding required to launch the business. A new profile on Barefoot Winery and a new Global Insights Box on migration as a source of entrepreneurship have been added. A new section on risk mitigation is also included.
- Chapter 10: This chapter opens Part III on business design by discussing the preparation of a business plan. A new profile about the failure of a South African startup and an in-depth discussion of proof of concept demonstrations are included. The chapter also includes a new approach to the elevator pitch as well as a discussion of TAM, SAM, and SOM, the various markets being addressed. Chapter 11: Profile 11.1 focuses on culture and has been enhanced and updated for this edition. A new Global Insights Box about Chinese entrepreneurship has also been added.
- Chapter 12: Opening Profile 12.1 on an entrepreneur who turned the wine industry upside down is new, as is the Social Entrepreneurship box featuring five socially responsible startups. A more in-depth treatment of supply chain management has been added and the chapter has been complete refreshed.
- Chapter 13: Profile 13.1 opens with a new story about an entrepreneur whose success came when she fought back after a major lawsuit. A Global Insights box on the legal forms of organization in the UK is also new. All laws have been updated

- Chapter 14: Profile 14.1 is new with an interesting startup experiment in marketing. A new section on journey mapping the customer experience has been added as well as social media marketing through video. The social media metrics section has been enhanced to reflect the latest tactics. The chapter has been completely refreshed with new examples. Chapter 15: This chapter closes the part on Business Design and is now the chapter on ethics and social responsibility. A new profile on a socially responsible for-profit business, Hearsay Social, opens the chapter and an updated Global Insights box on Turkish company AirTies is included. The entire chapter has been refreshed with new examples.
- Chapter 16: Opening Profile is new about a software company that makes big data analytics easily accessible to smaller businesses, and the Social Entrepreneurship box on Room to Read has been updated. The chapter has been reorganized to begin with the topic of financial planning. All statistics on investment have been updated and an expanded section on crowd funding has been added. The valuation section has been completed reworked and a new section on the concepts of divergence and dilution has been added. Chapter 17: The final chapter opens with a new profile story on Annie's Homegrown and its bumpy growth path. The Global Insights box is also new and looks at the growth of startups in Africa. This chapter now combines the topics of growth and change because they normally occur together, and the chapter has been tightened up to discuss only the most important topics from the original two chapters.

SUPPLEMENTAL MATERIALS

Key instructor ancillaries (Instructor's Manual, Test Bank, and PowerPoint slides) are available on the support website located at www.cengagebrain.com, giving instructors the ultimate tool for customizing lectures and presentations.

The Instructor's Manual is a comprehensive and valuable teaching aid, featuring chapter summaries and author notes, chapter objectives, brief chapter outlines, answers to end-of-chapter questions, suggestions to end-of-chapter activities, supplementary lecture materials, and Case Study teaching notes.

The Test Bank, revised and updated, includes a variety of true/false, multiple choice, and short answer questions in varying levels of difficulty, which emphasize the important concepts presented in each chapter.

The PowerPoint® Presentation provides instructors with comprehensive visual aids for each chapter in the book. These slides include outlines of each chapter, highlighting important figures, concepts, and discussion points.

Visit the text Web site at www.cengagebrain.com to find instructor's support materials and study resources to help students practice and apply the concepts they learned in class. The password-protected site contains resources for both students and instructors. For students it provides online interactive quizzes and flashcards. For instructors it includes downloadable Instructor's Manual and Test Bank files, as well as downloadable PowerPoint® Presentations.

ACKNOWLEDGMENTS

Many people helped make this seventh edition of *Launching New Ventures* happen—entrepreneurs, university students, professors, and, of course, the publishing staff at Cengage. In particular, I would like to thank Development Editor Chris Santos, who kept me on track through a very fast production schedule. In addition, I want to express my appreciation to Jason Fremder, Product Manager, and our Project Manager at Lumina Datamatics, Joseph Malcolm.

I want to thank the instructors who used the sixth edition and provided feedback, as well as my students at the Lloyd Greif Center for Entrepreneurial Studies at the University of Southern California, who willingly share their ideas and comments with me. I also want to thank those instructors who provided formal manuscript reviews at various stages of the revision process for this and previous editions:

Donna Albano
Atlantic Cape Community College
Jackie Anderson
Davenport University
Joseph S. Anderson
Northern Arizona University
Rachel Bates
Wichita Area Technical College
Richard Benedetto
Merrimack College
Edward Bewayo
Montclair State University
Bruce Dickinson
Southeast Technical Institute
Janice Feldbauer
Austin Community College
Todd Finkle
University of Akron
Isaura Flores
UNT Dallas
Susan Fox-Wolfgramm
San Francisco State University
Frederick D. Greene
Manhattan College
Jeffry Haber
Iona College
Jo Hamilton
Franklin University
Steven C. Harper
University of North Carolina at Wilmington
Timothy Hill
Central Oregon Community College
Sandra Honig-Haftel
Joseph Hruby
Baldwin Wallace
Lilly Lancaster
University of South Carolina–Spartanburg
Victor L. Lipe
Trident Technical College
Tom Lumpkin
University of Illinois at Chicago
Clare Lyons
Hagerstown Community College
Steven Maranville
University of Houston–Downtown
Ivan J. Miestchovich, Jr.

University of New Orleans
Stephen Mueller
Texas Christian University
Eugene Muscat
University of San Francisco
Terry Noel
Wichita State University
Robert Novota
Lincoln University
Fred B. Pugh
Kirksville College of Osteopathic Medicine
Juan A. Seda
Florida Metropolitan University
Michael Sperling
Stanly Community College
Randy Swangard
University of Oregon
Charles N. Toftoy
The George Washington University
Lynn Trzynka
Western Washington University
Barry L. Van Hook
Arizona State University
John Volker
Austin Peay State University
Bill Waxman
Edison Community College
Mark Weaver
University of Alabama
David Wilemon
Syracuse University
Dennis Williams
Pennsylvania College of Technology
Doug Wilson
University of Oregon
Gene Yelle
UMUC

And finally, I would like to thank my husband, John; and our children, Rob, Jaime (a writer herself), Betty, and Greg for their love and support.

K.R.A.

ABOUT THE AUTHOR

Kathleen Allen, PhD is a professor of entrepreneurship at the USC Marshall School of Business and founding director of the Marshall Center for Technology Commercialization. Allen works with scientists and engineers to identify markets and applications for their technologies, develop commercialization teams, and prepare them to launch ventures and seek funding. Her expertise in technology commercialization is now being applied in projects with the U.S. Navy and the U.S. Department of Homeland Security. She is the author of more than 15 books in the field of entrepreneurship and technology commercialization. Her personal entrepreneurial endeavors include co-founding two successful companies in commercial real estate brokerage, development, and investment, and two technology-based businesses that commercialized patented technologies. Dr. Allen served as entrepreneur-in-residence to a major aerospace firm, currently serves as advisor to several private companies, and is director of a NYSE company. In 2014, she was selected as Entrepreneurship Educator of the Year by the U.S. Association for Small Business and Entrepreneurship. Allen holds a PhD with a specialty in entrepreneurship, an MBA, an MA in Romance Languages, and a BA in music.

PART I

ENTREPRENEURSHIP AND OPPORTUNITY

The Road to Startup

Simplified

Find a Problem

Make sure it's significant and compelling

Engage with Potential Customers

Observe
Listen
Focus on problems

Develop

The solution in a physical form—a prototype
Test it with customers

Build the Product and Get It Ready to Sell

Include feedback from customers in the design and development

Develop and Test

How will you make money?
If necessary, whom do you know who can contribute capital to your business?

Look for Partners

Who can share resources and help you get to market faster?

Develop a Marketing Plan

What is the best way to reach customers?

Decide on the Legal Form for the Company?

How to split equity?
Roles and responsibilities

Hit the Market and Learn If Your Business Model Works

Get market feedback and revise if needed
Retest the model

CHAPTER 1

Understanding Entrepreneurship

"I think a good entrepreneur has a very clear grasp of what the goal is, an unwavering sense of the goal, an utterly agile approach of getting there."

JOHN KATZMAN, CEO NOODLE EDUCATION

CHAPTER OBJECTIVES

- Define entrepreneurship.
- Explain the role of entrepreneurship in economic growth.
- Distinguish entrepreneurial ventures from small businesses in terms of their purpose and goals.
- Describe the evolution of entrepreneurship.
- Identify today's broad trends in entrepreneurship.

PROFILE 1.1

WHATSAPP: FROM DAVID TO GOLIATH

On February 19, 2014, social networking giant Facebook acquired WhatsApp, a texting service, for $19 billion in the largest acquisition of a venture-backed company in history. At $19 billion, WhatsApp now exceeded the value of American Airlines, Marriott International, and a host of other iconic companies. Needless to say, the startup world was energized even if they didn't completely understand why Facebook needed to pay such a premium.

Jan Koum, a 38-year-old Ukrainian immigrant who began his life in the United States on food stamps, was not your typical New Millennial app developer in an accelerator waiting to be acquired. Born in Kiev, Ukraine, he grew up in a small village where his father was a construction manager. Their home had no hot water and they used the phone only when they had to because it was monitored by the government. At the age of 16, during a difficult time politically, Koum and his mother fled to the United States where she became a babysitter and Koum swept floors at a grocery store. By the age of 18, Koum had taught himself how to program and he joined a hacker group. Eventually he enrolled at San Jose State University, and in 1997, he met what would be his co-founder, Brian Acton, who worked at Yahoo!. Through nine years at Yahoo!, the two discovered that they did not enjoy advertising platforms—"dealing with ads is depressing." As a result, in 2007 they left the company.

The idea for WhatsApp was inspired by Apple's App Store and the potential for a whole new industry. Drawing on his experiences in the Ukraine where close friends stayed in regular contact but were charged exorbitant fees for texting and then they were monitored, Koum wanted to find a way to provide free and open access to people to communicate via text messages. In 2009, WhatsApp was born. By the end of 2009, the duo had updated the app to enable sending photos and their user growth increased, even when they decided to charge $1 for the app. By early 2011, WhatsApp found itself in the Top 20 of all apps in the Apple Store as their app went viral. It was at that point that Koum agreed to take $8 million from Sequoia Capital with the promise that he wouldn't be forced to use an advertising model. By 2013 with 200 million active users, they did a second round of funding in which Sequoia invested another $50 million, bringing WhatsApp's valuation to $1.5 billion. Interestingly enough, because Koum had stuck to a subscription model, their accumulated revenues now exceeded their Series A funding.

Koum did not set out to be acquired by Facebook; however, once you take venture capital, those decisions are not yours alone. It's easy to see why Facebook wanted WhatsApp. Slow to embrace the mobile platform, Facebook's users were demanding a more mobile friendly version of Facebook. What's more, both Facebook and WhatsApp are big drivers of smartphone use in India, Latin America, and Southeast Asia, so it was a natural alliance. However, there is one issue that users worry about going forward. Will Facebook respect WhatsApp's privacy policy, which is much different than Facebook's? Because its voracious appetite for customer information is well known in the industry, Facebook has been accused of slippage when it comes to user privacy. Koum is adamant that the values that inspired WhatsApp in the first place will not change. The company will not store customer information—not even phone numbers—or any messages. They only store undelivered messages and only for 30 days.

Facebook now owns WhatsApp, but Koum sits on the board of directors of Facebook while running WhatsApp somewhat independently. His commitment to privacy remains strong, but with the disclosure that some encryption flaws that exposed chat histories on the Android phone and a finding that messages sent over Wi-Fi or other public channels can be decrypted using known methods, that commitment is being severely tested.

Sources: Olson, P. (February 19, 2014). "The Rags-to-Riches Tale of How Jan Koum Built WhatsApp into Facebook's New $19B Baby," *Forbes*, http://www.forbes.com/sites/parmyolson/2014/02/19/exclusive-inside-story-how-jan-koum-built-whatsapp-into-facebooks-new-19-billion-baby/; Bajarin, B. (March 17, 2014). "The Value of Facebook and WhatsApp: Connecting the Unconnected," *Time*, http://time.com/27337/the-value-of-facebook-and-whatsapp-connecting-the-unconnected/; Johnston, C. (March 18, 2014). "WhatsApp's Idealism and Facebook Realism: A Study in Contrast," *ARS Technica*, http://arstechnica.com/business/2014/03/whatsapp-says-privacy-is-a-promise-it-can-keep/.

The WhatsApp story in Profile 1.1, although a rare event by any measure, clearly illuminates the excitement of entrepreneurship today and goes a long way toward explaining why so many people want to become entrepreneurs. The lure of success and wealth is enticing, but the reality is that most entrepreneurial businesses do not end up like WhatsApp. In fact, WhatsApp is only one example of what success looks like in the world of entrepreneurship.

What is entrepreneurship? Today the term is being applied to all types of businesses, from the one-person, home-based business to the Fortune 500 company. Because the term *entrepreneur* carries with it a positive connotation, there is a tendency to attach it to any activity that involves starting or innovating. Frequently, people say "I'm being entrepreneurial" when what they mean to say is that they're being creative. From one of the earliest definitions of entrepreneurship, proposed by Austrian economist Joseph Schumpeter, we learn that entrepreneurship is a form of "creative destruction." Breaking down old ways of doing things to create new value.[1] In the early years of the field of entrepreneurship as a discipline, the focus was on the startup of new ventures and the associated activities that defined those ventures.[2] Some research tackled the psychological and sociological traits of the entrepreneur in an attempt to define *who* the entrepreneur is, whereas other research asserted that what the entrepreneur *does* is more important.[3] Later, many definitions focused on the pursuit of opportunity and its exploitation.[4] One definition by Harvard professor Howard Stevenson that still embodies the essence of entrepreneurship is: The process by which individuals—either on their own or inside organizations—pursue opportunities without regard to the resources they currently control.[5]

This definition suggests that entrepreneurship is more than simply starting a business; it also encompasses a mindset or way of thinking and a set of behaviors. That way of thinking is usually opportunity-focused, risk taking, innovative, and growth-oriented. Although entrepreneurship is still most commonly thought of in the context of starting a business, the entrepreneurial mindset can be found within large corporations, in socially responsible nonprofit organizations, and anywhere that individuals and teams desire to differentiate themselves and apply their passion and drive to executing a business

opportunity. The behaviors that entrepreneurs undertake include creating opportunity, gathering the resources required to act on that opportunity, and driving the opportunity to completion. At its core, entrepreneurship is about a novel entry into new or established markets and about exploiting new or existing products and services.[6]

Entrepreneurship is not unique to any country, gender, race, age, or socioeconomic sector. Entrepreneurs can be found in some form in every country, in every age group, and (increasingly) in women as often as in men. The entrepreneurial fever does not distinguish between the rich and the poor; in fact, it touches anyone who has the passion to be self-employed or anyone who is determined to be independent and to take charge of his or her life. The entrepreneurial way of thinking can be understood and practiced, and the skills and behaviors of the entrepreneur can be learned and applied. The only characteristic of entrepreneurs that is arguably intrinsic is passion, the drive to achieve something. Passion cannot be taught or practiced; it simply exists when the right elements come together—for example, when an entrepreneur creates a business opportunity and devotes his or her full attention and resources to bringing it to life. Passion is found in successful people in all disciplines—great musicians, artists, writers, scientists, and teachers. It is what drives a person to go beyond expectations and to be the best that person can be.

This chapter explores entrepreneurship as a phenomenon and lays the groundwork for the skills and behaviors that are fundamental to the remainder of the text.

1.1 THE ROLE OF ENTREPRENEURSHIP IN THE ECONOMY

To understand the role that entrepreneurship plays in the economy, it is important to describe the process that entrepreneurs undertake as they create and exploit opportunity. Figure 1.1 depicts a view of this entrepreneurial process. As displayed, it is not a linear process but rather something more like a dynamic system with complex moving parts. Entrepreneurs initially work in Phase 1 to find a problem in a market or an industry. Once a significant problem or need is discovered, they do initial research to understand the industry, the potential market, and any issues they might face in the areas of intellectual property, regulation, or in developing a technology in the case of a technology solution. However, these preliminary activities do not occur in a vacuum. Instead, they are often intertwined with the activities in Phase 2, which focus on validating the hypotheses the entrepreneur has made about the customer, the solution, and the proposed business model. The results of these efforts to research and validate hypotheses will ultimately provide important information about sources of revenue and major drivers of cost. When the activities in Phases 1 and 2 give the entrepreneur sufficient confidence that this business is feasible, it's time to consider the design of the business and to create a plan for execution of the concept. This means having the right team and partners in place as well as choosing the best time to launch the business.

FIGURE 1.1 The Entrepreneurial Process

Phases	PHASE 1: Environment, Discovery & Opportunity	PHASE 2: Business Model Development and Testing	PHASE 3: Business Design, Planning, and Execution
RESEARCH	**Critical Industry Forces** Suppliers, Buyers, Competitive Rivalry, Barriers to Entry, Threat of Substitutes Trends: Technological, Political, and Social	**Value Proposition: The Solution** Applications, Product/Service Offerings Benefits to Customer	**Business Process Flow** Customer Acquisition to Delivery Business Activities
	Market: Pains/Problems Market Size and Growth Competition Trends	**Customer Segment Identification and Validation** Addressable Market Segments Benefits to Each Customer First Customer Customer Channels	**Key Resources Required and Timing** Physical—Plant and Equipment Capital—Working and Investment Human—Headcount
	Intellectual Property, Regulatory, and Technology Validation Patent Decisions, Regulatory Impact Technology PlatForm Development Field Tests and Pre-Clinical tests Technology validation	**Technology Application Validation** Field Tests with Customers Animal Trials Clinical Trials	**Operations** Manufacturing/Operations Plan Marketing Plan Management Plan Contingency Plan Execution Plan
OUTCOMES	**Revenue Sources and Drivers** Number of Sources Type Size Speed to achieve		**Strategic Partners** Independent Contractors Strategic Alliances Investors
	Cost and Profitability Drivers Type Size Importance		**Launch Strategy** License Start a Business Sell Joint Venture
	Startup Capital Requirements		
EXECUTION	**Management Team** **Board of Directors/Advisors** Expertise, Experience, Network		**Market Timing** When to launch

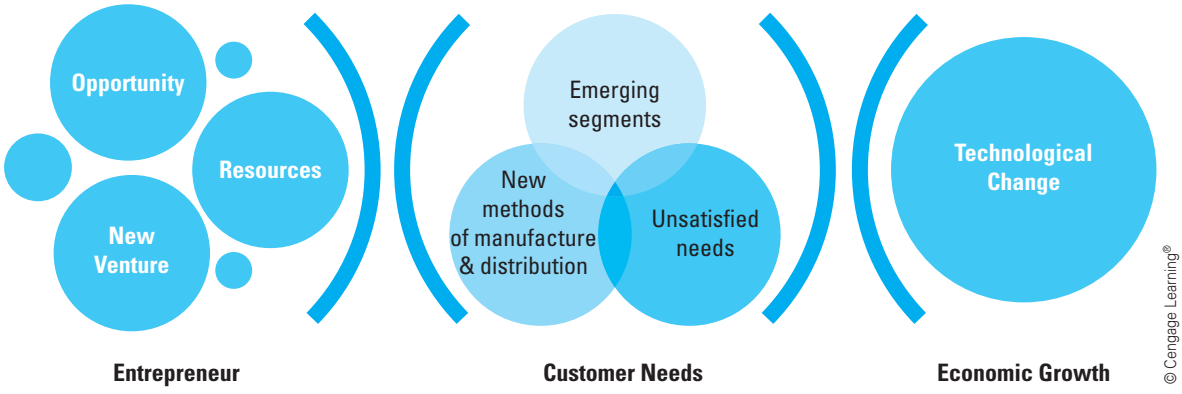
The successful execution of the entrepreneurial process results in a new venture; however, the process of testing and validation continues as the new business responds to a dynamic environment that includes all the variables external to the business that can impact its growth. Some of those external variables include the economic environment, competition, new laws and regulations, labor supply, and sources of capital, to name a few. As the leader, an entrepreneur essentially plays two roles—that of the catalyst, initiating and driving the process, and that of a ringmaster in a three-ring (or more) circus, managing the process through all its changes as the business grows.

This complex entrepreneurial process provides many benefits to society. Chief among these benefits are economic growth, new industry formation, and job creation. The following sections offer some insight into these contributions.

1.1a Economic Growth

Early economists recognized that technology is the primary force behind rising standards of living[7] and that technological innovation would determine the success of nations in the future. For many years, economic growth was explained solely in terms of inputs of labor and capital. However, in the 1980s—referred to by many as the Decade of Entrepreneurship—the work of Paul Romer and others identified technological change as a critical element of a growth model that responds to market incentives.[8] Romer asserted that technological change happens when an entrepreneur identifies new customer segments that appear to be emerging, new customer needs, existing customer needs that have not been satisfied, or new ways of manufacturing and distributing products and services. (See Figure 1.2.) Identifying these needs offers the opportunity to invent new technology solutions that change the way we do things. Clearly the Internet was one of those technologies, as were fiber optics and the artificial heart. However, it is not just the invention of new-to-the-world technologies that spurs economic growth. Innovators who find ways to improve on existing products, services, and business models or help customers become more efficient also contribute to a vibrant economy.

FIGURE 1.2 Entrepreneurship and Technological Change



Another way that new technologies have produced huge economic benefits is by lowering the cost of information and transportation, enabling a broader range of goods and services to be traded anywhere in the world. In fact, today very few markets enjoy freedom from competition in the global arena. For example, where local markets in Florida and California once dominated the market for fresh fruits, today consumers are frequently unaware that much of their fresh produce comes from Chile, New Zealand, and other parts of the world. Even service companies cannot escape the impact of the global economy. Russia, China, and India, for example, are dominant players in the software programming industry by transmitting their services electronically and economically to anywhere in the world.

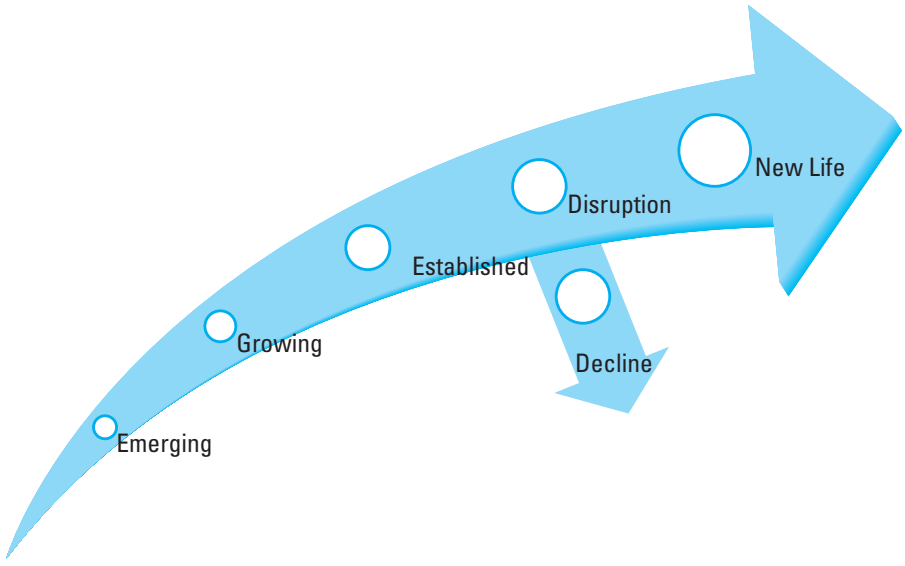
1.1b New Industry Formation

New industries are another important outcome of entrepreneurship and technological change. An industry is simply the people and companies that engage in a category of business activity such as semiconductors, medical devices, or food services. New industries are born when technological change produces a novel opportunity that enterprising entrepreneurs seize. For example, Apple's iPhone, introduced on January 9, 2007, spurred the development of the mobile app industry, which is now one of the fastest growing sectors in the broader software industry. In 2013 alone, the industry grew 115 percent.[9] The iPhone itself was an innovation built on the know-how of many earlier inventions. Nevertheless, Apple saw the opportunity to change the way we use phones by essentially putting a very powerful computer into everyone's hands and then encouraging developers to create unique programs exclusively for the device.

Industries don't last forever. Much like humans, they have life cycles—they're born, they grow, they decline, and they die. Figure 1.3 depicts the generic life cycle of an industry. The earliest stage of an industry is a time of rapid innovation and change as young firms struggle to become the industry standard bearers with their technology. As these entrepreneurial firms achieve noticeable levels of success, more and more firms desiring to capitalize on the potential for success enter the industry. As the industry grows, it generally becomes more fragmented as a result of so many firms competing for position. Then, at some point consolidation begins to occur as the stronger firms begin to acquire the smaller firms and the weaker firms die out. Eventually, the number of firms in the industry stabilizes and the firms mature. If innovation in the industry ceases to occur, the industry output may actually begin to decline. However, if new, disruptive technology is introduced, the industry may now have a new platform on which to innovate and grow again.

Why are so many more firms created than an industry can support? The answer lies in not knowing which new firms will be successful in securing adoption of their new technologies, products, or services. In the case of incremental innovations, or improvements on existing products, research has shown that incumbent firms are generally more successful than new firms, but, with disruptive, new-to-the-world technologies, it is anyone's guess who the survivors will be.[10] When a disruptive technology wins the standards war in an industry, it can

FIGURE 1.3
The Industry Life Cycle



make obsolete previous technology almost overnight. For example, the battle between HD DVD and Blu-ray ultimately left HD DVD in the dust. More recently, when the wireless industry transitioned to 4G technology, there was a battle between Qualcomm's Ultra Mobile Broadband (UMB) and a European rival, which had developed Long Term Evolution or LTE, which was compatible with the GSM communications standard used by about 80 percent of the world's wireless subscribers. Within a year, Qualcomm decided to cede its space to LTE. LTE became the standard in 2008.

1.1c Job Creation

Entrepreneurial ventures are responsible for job creation that is disproportionate to the net total new jobs created in the United States over the past 25 years. The U.S. Small Business Administration (SBA) defines a small business as one with fewer than 500 employees, which by many standards is not very small and includes both high-growth technology ventures and small "mom and pops"—quite a range indeed. The European Union uses a lower cutoff point of 250 people. Nonetheless, businesses classified as small by the U.S. SBA definition represent 99.7 percent of all employers and pay more than 45 percent of the total U.S. private payroll. They have generated 65 percent of net new jobs over the past 15 years.[11] It is important to note, however, that the vast majority of net new jobs created by the small business sector are created by a few rapidly growing young firms called "gazelles" or high-impact businesses. These young businesses generally have sales that double over a four-year period with employment growth of two or more times over the same period.[12] High-impact businesses account for 5 to 6 percent of all businesses, but they account for nearly all net new job creation.[13]

Economic data from 2010 indicate that there were 5,717,302 (99.7%) employer firms with fewer than 500 employees and 17,236 (3%) large employer firms in existence. Businesses with fewer than 20 employees account for approximately 18 percent of all jobs, while businesses with 20–499 employees (considered small businesses) account for about 30.7 percent of all jobs. The largest firms with more than 500 employees provide 50.9 percent of all jobs. Overall, entrepreneurial firms with fewer than 500 employees account for 49.1 percent of all jobs.

Table 1.1 depicts the number of employer firm startups (in business for less than a year) in the United States from 2005 to 2010. It is interesting to note that while the number of employer firms remained fairly consistent over the entire period, the number of employer firm startups declined overall—remaining relatively constant from 2005 to 2007, then declining in 2008 and again in 2009, and rising only a bit in 2010. During the period, startups accounted for between 9.0 percent and 11.1 percent of all employer firms.[14] However, if you consider net job creation, that is, factoring in firm contractions and death, startups created about 19.5 million jobs, whereas existing companies destroyed about 23.1 million jobs, which resulted in an overall net loss of 3.4 million jobs.[15] One explanation for this loss is the fact that approximately one-third of startups close by the second year and fewer than half still exist after five years.[16]

Data from the U.S. Census Bureau from 1998 to 2011 demonstrates that the age of the business is more important in understanding job creation and employment than the size of the business. Essentially, firms less than two years old are fairly volatile in both job creation and destruction, much more so than larger established firms, especially in the first five years.[17] Therefore, it is not necessarily small businesses as a whole that create jobs but young businesses that are growing. Startups are generally job destroyers in the first five years, but the firms that survive tend to grow and add net new jobs over time.

TABLE 1.1
Number of Employer Firms by Startups and Non-Startups 2005–2010

YEAR	#EMPLOYER FIRM STARTUPS	#EMPLOYER FIRM NON-STARTUPS	TOTAL # EMPLOYER FIRMS	SHARE OF EMPLOYER FIRMS THAT ARE STARTUPS
2005	644,122	5,339,424	5,983,546	10.8%
2006	670,058	5,352,069	6,022,127	11.1%
2007	668,395	5,381,260	6,049,655	11.0%
2008	597,074	5,333,058	5,930,132	10.1%
2009	518,500	5,248,806	5,767,306	9.0%
2010	533,945	5,200,593	5,734,538	9.3%

Sources: U.S. Small Business Administration, "Statistics of U.S. Businesses, U.S. Dynamic Data, U.S. Data: Employer Firm Births and Deaths by Employment Size of Firm, 1989–2010," at http://www.sba.gov/advocacy/849/12162; U.S. Bureau of the Census, "Statistics of U.S. Businesses: Latest SUSB Annual Data, 2009, U.S. & States Totals," November 2011, at http://www.census.gov/econ/susb/historical_data.html; and U.S. Bureau of the Census, "Statistics of U.S. Businesses: Latest SUSB Annual Data, 2010, U.S. & States Totals," October 2012, at http://www.census.gov/econ/susb/.

Given that we do business in a global marketplace, it's important to know something about international entrepreneurship. The annual *Global Entrepreneurship Monitor* employs samples that represent about 75 percent of the world's population and 90 percent of the world's GDP. The study divides countries into three groups based on where the country stands in terms of growth and they look at early-stage entrepreneurial activity.[18] In the 2013 report, they identified three categories of countries: factor-driven, efficiency-driven, and innovation-driven.

- **Factor-driven economies** rely on unskilled labor and the extraction of natural resources for growth. Here businesses are normally created out of necessity and so these countries tend to have very high entrepreneurial activity rates relative to other types of economies. Examples are Zambia and Nigeria, which have entrepreneurial activity rates at a high 39 percent of the adult population.
- **Efficiency-driven economies** are those growing and in need of improving their production processes and quality of goods produced. Examples are Argentina, Russia, and South Africa, although the highest entrepreneurial activity rates were found in Latin America and the Caribbean.
- **Innovation-driven economies**, which are the most advanced, are where businesses compete based on innovation and entrepreneurship. Examples are the United Kingdom, Singapore, Israel, and the United States. The highest levels of entrepreneurial activity are found in Trinidad, Tobago, and the United States.

Entrepreneurship occurs in all three categories, but it is clearly driven by different factors in each, and those factors determine the types and size of businesses found in those countries. One consistent finding is that across all type of economies, there are more people in the 25- to 34-year-old age group with intentions to start a business.

1.2 THE NATURE OF ENTREPRENEURIAL STARTUPS

Entrepreneurial ventures and small businesses are related, but they are not the same in most respects. Both are important economically but each provides different benefits and outcomes. Schumpeter described entrepreneurs as equilibrium disrupters who introduce new products and processes that change the way we do things, while small-business owners typically operate a business to make a living.[19] Examples of small businesses are small shops, restaurants, and professional service businesses. They form what has been called the "economic core."[20] In some cases, they're known as lifestyle businesses or "mom and pops," not only because they tend to stay small and geographically bound, but more because their owners make a conscious decision to remain small. As a result, they tend to be slow growing and often replicate similar businesses already in the market.

It should not be forgotten, however, that even high-impact ventures start small. The difference is that the high-impact entrepreneur's goal is not small.

In general, high-impact entrepreneurial ventures have three primary characteristics. They are:

- Innovative
- Value-creating
- Growth-oriented

An entrepreneurial venture brings something new to the marketplace, whether it be a new product or service. It creates new value in a number of important ways. Entrepreneurs create new jobs that don't merely draw from existing businesses, and by finding niches in the market, entrepreneurs serve customer needs that are currently unserved. Moreover, entrepreneurs typically have a vision of where they want their businesses to go, and generally that vision is regional, national, or (more often) global.

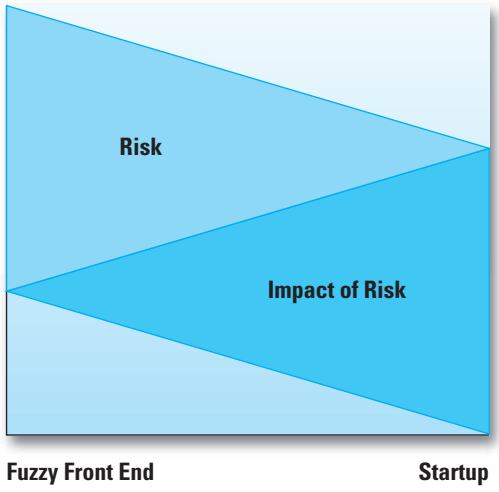
Choosing what kind of business to start is very important, because that choice influences all subsequent decisions and determines what kinds of goals you are able to achieve. For example, if you intend to grow a business to a national level, you will make different decisions along the way than if the intent is to own and operate a thriving restaurant that competes only in the local community. Generally, running a small business requires good management skills on the part of the owner, who must perform many of the tasks associated with the business as it grows. By contrast, entrepreneurs often do not have the skills to handle the management aspects of the business and prefer to hire experts to carry out that function, leaving the entrepreneur and the founding team free to innovate, raise capital, and promote the business. Chapter 2 will address the behavioral characteristics of entrepreneurs.

1.2a Risk and the Entrepreneurial Venture

It's impossible to talk about entrepreneurial ventures without considering the effects of risk as risk is an inherent part of the entire entrepreneurial process. What changes over time with more information and validation from the market is the impact of that risk. Figure 1.4 depicts the relationship between the amount of risk in a new venture and the impact of that risk.

Much of new venture risk occurs early in the creation process. Borrowing a term from product development, we can call the period of time prior to launch and startup the *fuzzy front end*, which simply means that the activities undertaken at this point are often unclear and subject to change as more information is obtained. The fuzzy front end has been modeled in economic terms. Simply put, the amount of investment an individual is willing to make in a new product—or, in this case, in a new venture—is a function of the probability of its success, the value of that success, and the cost of failure [$\text{Inv} = f(\text{PS} + \text{VS} + \text{CF})$]. A change in any one of these values will alter the economics of the bet.[21] The nascent entrepreneur uses the time spent in the fuzzy front end to calculate the probability of success as an entrepreneur; what that success will mean in terms of return on his or her investment of time, money, and effort; and what the risk or cost of failure might be. Those probability estimates are highly subjective;

FIGURE 1.4
Risk and Impact in Startups



however, if the nascent entrepreneur uses the time in the fuzzy front end to gather information about the industry and market, test the business model through feasibility analysis, and determine the conditions under which he or she is willing to move forward and start the business, much of the subjectivity will be eliminated. Moreover, the risk of startup will be reduced, and the probability associated with the three outcomes will be more accurate.

Nevertheless, the impact of the risk taken is relatively small at the fuzzy front end but grows exponentially as the new venture gets closer to startup. More is known at startup, which reduces risk, but what risk remains has a larger impact because to achieve startup, more resources must be invested; consequently, the loss is greater should the venture fail after launch.

It is not entirely clear what actually prompts an individual to become a nascent or budding entrepreneur. Even with the risk assessment and risk mitigation that are part of preparing to launch a new venture, there appears to be no uniform mechanism that consistently results in an individual deciding to put forth the effort to launch a business. One individual may choose to enter the nascent stage despite a high level of risk. Another may choose to reject the nascent phase even under conditions where the perceived risk involved is low. Nascents appear to emerge from the population through both push and pull factors. *Push* is the mechanism that drives an individual to become a nascent entrepreneur because all other opportunities for income appear to be absent or unsatisfactory. In other words, it's a necessity. *Pull* is the mechanism that attracts an individual to an opportunity and creates a "burning desire" to launch a business and capture a market. Recent research has found that ability expectancies play a more significant role than outcome expectancies in whether a nascent entrepreneur launches a business.[22] In other words, entrepreneurs come to the new venture process with perceptions about their ability to undertake the tasks required to start the business independent of the probability of failure, and those perceptions drive whether or not the business actually launches.

The intent to start a business is not in itself enough to make it happen. Due to the challenging nature of the endeavor, many potential entrepreneurs drop out of the process as they move from intention to preparation and then to execution. In addition, a high number of entrepreneurs give up before the new business makes the transition to an established firm.[32] Again Figure 1.4 enables us to see from an investor's perspective that if an investor funds a venture at the fuzzy front end or pre-startup, the risk is high. That risk declines as the new venture answers many of the questions that surround its viability as a business. Ironically, the investor is inclined to invest at startup or beyond when the risk is smaller, but impact of a failure at that point is actually greater.

1.2b New Business Failure

The SBA reports that about half of all new businesses will survive five years or more, and approximately one-third will survive 10 years or more. So it is clear that survivability increases with age.[23] Furthermore, while the rate of startups has increased, the rate for small business failures has declined. Nevertheless, other studies have found that only about 45 percent of startups were still alive after five years.[24] Bloomberg reports that 8 out of 10 entrepreneurs fail within 18 months, an 80 percent failure rate.[25] This disparate range of failure rates is likely due to differing definitions of failure and from lumping all types of businesses into the sample.

One of the biggest reasons for new business failure is that entrepreneurs come up with a solution looking for a problem. They haven't identified a real need in the market that they can address with their business concept. Another reason is that the solution they are offering is not unique or compelling. In other words, it is often a "me-too" solution that does not offer anything different from what is already in the market. Yet another reason is that they haven't identified and tested a business model that actually works. All of these factors lead to failure. But beyond these factors, entrepreneurial ventures face the liability of newness. The fact is that the firms that are most likely to survive over the long term are those that display superior levels of reliability and accountability in performance, processes, and structure. Because these factors tend to increase with age, failure rates tend to decline with age.[26] Young firms have a higher chance of failure because they have to divert their scarce resources away from the critical operations of the company in order to train employees, develop systems and controls, and establish strategic partnerships. Another body of research sees failure as a liability of adolescence, claiming that startups survive in the early years by relying on their original resources, but that as those resources are depleted and the need to find new and different resources increases the company's chances of failing also increase.

Failure is a fact of life that must be dealt with. The vital issue for entrepreneurs is not avoiding failure but minimizing the cost of a possible failure and recovering quickly. That comes from starting with a robust business model and testing it in the marketplace prior to starting the business.

SOCIAL ENTREPRENEURSHIP: *MAKING MEANING*

Solving a Tough Problem in Africa

Mobile phones have penetrated Africa in a big way, growing at a rate of about 30 percent per year. But keeping those mobile phones charged is a costly proposition. In East Africa, for example, the typical family may spend 30 percent or more of their annual income on lighting and cell phone charging, according to Lesley Marincola, CEO of Angaza, a company founded in Nairobi, Kenya, in 2012 that is working to solve that problem. With its PAYG (pay-as-you-go) platform, it overcomes the price barrier to solar and other sources of energy by accepting energy prepayments, which avoid the service costs associated with traditional loans. Using their own cell phone, customers can send payment information to their PAYG-enabled solar devices. One of Angaza's customers is a farmer named Stephano who uses his cell phone for business. Because traditional kerosene is dangerous to his family's health, he was able to switch to Angaza's product SoLite to provide clean light and to charge his phone. Now he can pay for energy based on his needs, and it's actually costing less than kerosene.

Source: Angaza Design, www.angazadesign.com.

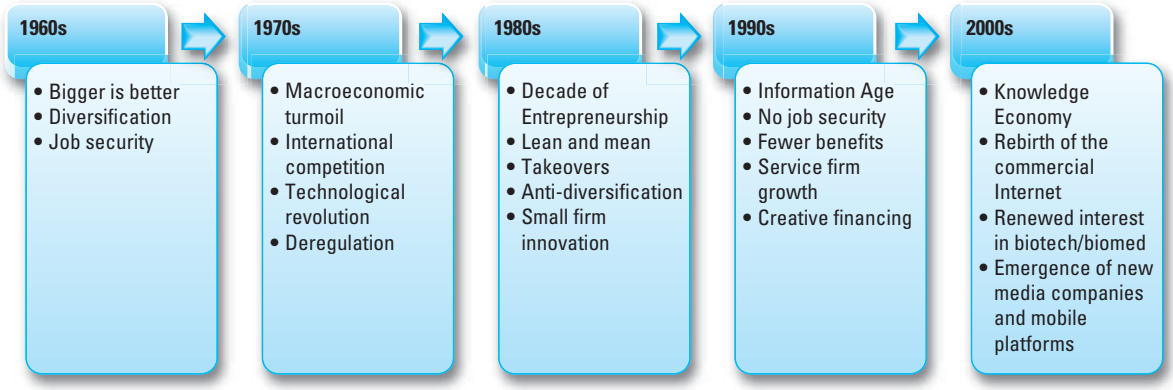
It is important to understand how entrepreneurship has evolved over time as a discipline even while its economic benefits have remained relatively constant. The next section presents a summary of key changes in the entrepreneurial landscape.

1.3 A BRIEF HISTORY OF THE ENTREPRENEURIAL REVOLUTION

The United States was founded on the principle of free enterprise, which encouraged entrepreneurs to assume the risk of developing businesses that would make the economy strong. However, it was not until the 1980s that the word *entrepreneur* came into popular use in the United States, and an almost folkloric aura began to grow around men and women who started rapidly growing businesses. These formerly quiet, low-profile people suddenly became legends in their own time, with the appeal and publicity typically associated with movie stars or rock musicians.

Today's entrepreneurs are no different. Elon Musk has changed the game for the space industry by creating a lower-cost solution for sending cargo and satellites into space. Under the leadership of Jeff Bezos, Amazon.com completely disrupted the brick-and-mortar retail industry. Entrepreneurs such as these shake up the economy and change the game for everyone. They look for unsatisfied needs and satisfy them. Figure 1.5 summarizes the entrepreneurial evolution that has taken place since the 1960s, paving the way for the innovation economy that has been the envy of the world.

FIGURE 1.5 The Decades of Entrepreneurship



1.3a The Decades of Entrepreneurship

In the ***mid-1960s***, gigantic companies were the norm. General Motors in the 1960s was so large that it earned as much as the 10 biggest companies in Great Britain, France, and West Germany combined.[27] The reason why U.S. companies enjoyed such unrestricted growth at that time was that they lacked competition from Europe and Japan. Therefore, job security for employees was high, and companies tended to diversify and grow very large by acquiring other businesses.

The ***1970s*** saw the beginning of three significant trends that would forever change the face of business: macroeconomic turmoil, international competition, and the technological revolution. A volatile economic climate, the likes of which had not been seen since World War II, dominated the 1970s. The Vietnam War economy brought inflation, the dollar was devalued, food prices skyrocketed as a consequence of several agricultural disasters, and the formation of OPEC sent gas prices up 50 percent. Furthermore, by the late 1970s the Federal Reserve had let interest rates rise to a prime of 20 percent with the result that there was no borrowing, no spending, and a recession that spilled into the 1980s, bringing with it an unemployment rate of 10 percent.[28] To compound the effects of the economy on business, by 1980 one-fifth of all U.S. companies faced foreign competitors that had far more favorable cost structures with much lower labor costs. Imports, particularly in the automobile and machine tools industries, were suddenly taking a significant share of the market from U.S. businesses.

The third event affecting business at that time was the technological revolution brought about by the introduction in 1971 of the Intel microprocessor, the Mits Altair personal computer in 1975, and the Apple II computer in 1977. Microprocessors succeeded in rendering whole categories of products obsolete—such things as mechanical cash registers and adding machines, for example—and effectively antiquated the skills of the people who made them.

Increasing the pressure on business, the government ushered in a new era of business regulation with the Environmental Protection Agency, the Occupational Safety and Health Agency, and the Consumer Product Safety Commission, all of which increased costs to businesses. On the opposite front, deregulation forced planes, trucks, and railroads to compete, and in general big companies no longer had control of the marketplace.

By the ***early 1980s***, business was in terrible shape. The Fortune 500 saw a record 27 percent drop in profits.[29] Large mills and factories were shutting down; manufacturing employment was declining; and yet, ironically, productivity remained the same or actually increased. New, smaller manufacturers were still generating jobs—and not only manufacturing jobs, but service jobs as well. How was this possible?

To become competitive, the smaller, more flexible, entrepreneurial manufacturers had hired subcontractors who could perform tasks such as bookkeeping and payroll more efficiently. These service firms developed to support the needs of the product sector, but they also inspired the creation of other service firms: People who work often need day-care or maid services, so even more jobs were being created.

With the creation of all these jobs, it is no wonder that the 1980s was called the true Decade of Entrepreneurship by many, including the father of modern management science, Peter Drucker, who was not alone in asserting that the United States was rapidly and by necessity becoming an entrepreneurial economy.[30] On the heels of the emergence of Silicon Valley and its legendary entrepreneurs, the mainstream press began to focus on business activities, creating many popular magazines such as *Inc.* and *Entrepreneur*.

Responding to this entrepreneurial drive, big business in the 1980s found it necessary to downsize and reverse the trend of diversification it had promulgated for so long. If big companies were going to compete with the dynamic, innovative smaller firms and fend off the takeover bids so prevalent in the 1980s, they would have to restructure and reorganize for a new way of doing business. This restructuring and reorganizing actually resulted in improved performance, increased profits, and higher stock prices. It also meant, however, that many jobs would no longer exist, employees would receive fewer benefits, and the only "secure" jobs left would be found in civil service.

Toward the end of the 1980s, researchers observed that young entrepreneurial ventures were internationalizing much earlier than expected and at a much smaller size.[31] A significant number of these ventures were in high-tech industries.[32] Large-sample empirical research revealed that directors and managers with significant international experience played a strong role in the internationalization of entrepreneurial ventures at startup.[33] All these events moved this country toward a period in the 1990s that required the vision, the resources, and the motivation of the entrepreneur to seek new opportunities and create new jobs in a vastly different global environment electronically linked via the Internet.

More than perhaps anything else, the ***1990s*** were characterized as the Information Age. The commercial Internet emerged midway through the decade, and suddenly global competition and resources were more readily available than ever before. The Internet made entrepreneurship and the ability to

compete alongside large established companies in the same markets a reality. Furthermore, with more and more jobs being shipped overseas, employees learned that job security was no longer a fact of life. U.S. companies quickly discovered that their competitiveness lay in the control of information and new ideas, and clearly the Internet was to play an important role in this new view of the world. The late 1990s brought the "dot com" bubble and the rush of the venture capital community to position itself for what appeared to be a new way of doing business. At the same time, the interest in non-Internet-related technology was waning as investors saw a much quicker return on their investment in the world of e-commerce.

The ***new millennium*** ushered in what many referred to as the *knowledge economy*, brought about by increased globalization and the competitive shift to more "knowledge-based economic activity."[34] In the new economy, the primary resource was knowledge rather than raw materials and physical labor. Differences in economic performance in regions of the world could largely be explained by the presence or absence of entrepreneurship capital, which was essential to the development of new business models that monetized knowledge. Entrepreneurship capital was characterized by social networks that linked entrepreneurs to educational institutions, industries, network brokers, and to resources. California's Silicon Valley and the North Carolina Research Triangle are two examples of environments that have long prospered from knowledge-based economic activity and a high level of entrepreneurial enterprise.

The knowledge economy of the early 2000s was also described by low-cost competition from Asia and Central and Eastern Europe that came about when transfer costs were driven down in the telecommunications and computer sectors, making it easier and less expensive to move capital and information. Consequently, most routine tasks in production and manufacturing were now more efficiently accomplished in low-cost locations.

Without a doubt, the early 2000s were also influenced by the commercial Internet. In 1998, the media declared that dot com was the business of the future—that it would change the way business was conducted forever. By the spring of 2000, the dot-com bubble had burst and funding for dot-com ventures virtually disappeared overnight. However, what remained was a distribution channel that had huge potential and merely required good business models to sustain it.

Renewed interest in non-Internet-related technologies was one of the results of the dot-com crash of 2000 as investors turned to solid technologies that could be protected through patents and developed a growing interest in green tech, biotech, and biomedical devices that spread into the second decade of the new millennium. Marketer Joe Pine characterized this second decade of the new millennium as the "experience economy." Companies are looking for ways to give their customers an authentic experience. As it turns out, mobile is a platform that is well suited to experiences because mobile devices like smartphones are with users wherever they go. With mobile devices dominating the market, more entrepreneurs are looking for ways to solve problems associated with search, e-commerce, social networks, and communication on mobile devices.

1.4 CURRENT ENTREPRENEURIAL TRENDS

In the previous edition of this book (2012), major trends were global economic turmoil, green power, the women's market, and the Gen Y consumer movement called *mass mingling*. Clearly those trends are still relevant, but four new trends, among many trends, have emerged that will also affect the decisions entrepreneurs make about opportunity, business models, and strategies to sustain their businesses: (1) digital anonymity, (2) domestic manufacturing, (3) big data, and (4) the lean startup movement.

1.4a Digital Anonymity

Today indiscriminate sharing of personal information on social networks is at the top of the hype cycle. The typical mobile user checks his or her email on a smartphone 150 times a day and global mobile traffic as a percentage of total Internet traffic has now reached more than 15 percent with the trend line curving steeply upward. Facebook can claim more than a billion global active users, 60 percent who log in daily and have an average of 200 or more friends. About 350 million photos are uploaded daily, but that pales in comparison to the 100 hours per minute of video that is uploaded to YouTube.[35]

With so many people sharing the most intimate details of their lives with the world, something was bound to disrupt the trajectory of online sharing. The year 2013 saw NSA leaks, hackers targeting consumer credit cards, and blanket inquiries into individual's personal lives through their online connections, to name a few. These invasions of privacy and more have inspired whole new platforms based on giving the user a digital experience that can be anonymous, deleted, and secure. For example, Snapchat, a photo messaging app, enables users to send a photo or video with text to a specific group of people and control the time limit for how long they can view the Snaps, from one to ten seconds. When the time limit ends, the Snap is no long available and is deleted from Snapchat's servers. In this way users can control their digital footprints.

On the business side, ArmorText provides an encrypted platform for companies who want to communicate through text messages in a secure environment that meets the requirements of government regulations such as HIPAA in the healthcare field and FINRA in financial services. New search engines such as DuckDuckGo offer the opportunity to search the Internet without being tracked, which is particularly important in countries that watch what citizens do on the Internet. Going forward, entrepreneurs should expect to see more offerings related to privacy and security.

1.4b Return to Domestic Manufacturing and Craft

In the United States, "Made in America" is making a comeback. In a 2014 report on U.S.industrial manufacturers, PricewaterhouseCoopers found a reason to be optimistic that the United States may experience a renaissance in

manufacturing.[36] Some of the contributing factors include affordable labor, higher shipping costs, and innovation introduced by manufacturing startups like Tesla Motors, which employs robots to keep costs down. Many entrepreneurs are finding that bringing their manufacturing home, called in-shoring, reaps benefits in speed and more control over the process. For example, a San Francisco–based apparel company, Everlane, which sells to customers online, is now manufacturing half of its product line in the United States. If Everlane gets a plug from TV show or even praise from an online blog, it can respond quickly to the surge in demand that typically follows. That would not be possible if Everlane had to rely on its overseas manufacturer.

A study by the Boston Consulting group finds that more than half of large manufacturing firms are planning to return some of their production to the United States to take advantage of skilled labor and reduced costs of transportation.[37] What this means for entrepreneurs is that they may be able to keep their manufacturing domestic and they may be able to find manufacturing partners with excess capacity that they can tap into until their business is making money.

One of the key technologies in the manufacturing space that is surging in interest is 3D printing using advanced materials. These printers, which have been around a while, lay down particles of wood, plastic, or metal in very thin layers that build up into whatever object is being created. One of the leaders in this effort is Nike, which is changing the way we look at mass production. The company is able to produce prototypes at speeds never before seen, bringing down the typical development time from six weeks to two days.[38] Entrepreneurs are even finding that 3D printing can be a cost-effective way to make products in small quantities. Summer Powell designs jewelry on a 3D computer screen and then uses a New York printing service to produce the jewelry out of nylon on a 3D printer. Then Powell adds some finishing touches and sells the jewelry online through Etsy.com or in local boutiques in San Francisco.[39]

As manufacturing regains prominence in the United States, it will not look like the manufacturing of 20 years ago and entrepreneurs will have an important role to play, whether it's with 3D printing applications (also called *additive manufacturing*), advanced robotics that are reducing the need to outsource overseas, software solutions, service integration, or making sense out of big data. Technology is bringing down the cost of manufacturing and the opportunities to innovate are enormous.

1.4c Big Data

Big data is the term now being used to describe the rapidly growing mass of information that companies and individuals are stockpiling and storing. With an increasing number of devices gathering information, we are now experiencing what is called *data exhaust*, which is simply the data that goes into the Internet every time we send a text, search a website, or tweet. IBM reports that our devices give birth to 2.5 quintillion bytes of data every day. That is equivalent to 531 million DVDs. In fact, it is estimated that by 2020, the rate at which we produce data will mushroom to 35 zettabytes, or 7.35 trillion DVDs.[40]

Of course, all of that data, whether it's structured data such as reports or unstructured coming from multiple sources, needs to be catalogued, stored, and analyzed. So rich with possibility is this trend that specialized funds such as Data Collective have been launched to provide investments in big data start-ups that can find ways to monetize data. Entrepreneurs who can gain access to unique data and insights that no one else has can create a strong competitive advantage. Furthermore, new database systems are needed because legacy systems from major vendors were not developed to effectively handle the speed, volume, or variety of data being produced online. There are now opportunities to disrupt the current systems with systems that are faster and more flexible.

Data is now considered an asset class for most businesses, so this trend will converge with the trend toward privacy and security. One of the biggest challenges going forward is figuring out how to extract revenue from that data.

1.4d The Lean Startup Movement

Although the lean startup movement seems to be a hot trend in the startup world, it actually had its origins in a famous management approach used by Toyota called *lean thinking*. The three key principles of lean are 1) minimizing waste in time and resources, 2) continuous improvement through experimentation and pivoting in new directions, and 3) systems thinking or looking at the big picture. Throughout the 1980s and 1990s, lean found its way into all kinds of businesses until Eric Ries, a software entrepreneur, introduced lean to the startup world with his book aptly named *Lean Startup*. In it he focused on how to get to the customer quickly with minimum viable product (MVP) to get feedback (validation) and iterate (pivot) to a more successful outcome. According to Ries, the key question to be answered is "Should we build this product?" Moreover, "Can we build a sustainable business around this set of products and services?" He asserts that the key activities of a startup are "build-measure-learn."[41] The methodology favors "experimentation over planning, customer feedback over intuition, and iterative design over traditional 'big design up front' development."[42]

The lean startup movement generally attempts to take a scientific approach to startup and to create a brand around the approach. It was quickly adopted by Silicon Valley technology companies and Ries became a frequent speaker and advisor on the topic. Even the U.S. government began looking for ways to take a lean approach to government programs. The biggest criticisms of the movement are that the approach itself has not been validated due to the difficulty of controlling for all the variables that might impact the process. Reid Hoffman, LinkedIn founder, was reported as saying that the movement is good for entrepreneurs, who are not Steve Jobs or Elon Musk, the role models for many technology founders today.[43] In some cases, lean has been misinterpreted by entrepreneurs as an excuse to bring incomplete products to market that have no real value.

As the lean startup movement begins to move out of the startup space and into Fortune 500 companies, worldwide organizations, and government agencies, it will probably be required to adhere to metrics that have been missing from its experience in the startup world. Some of the tenets and tools of

lean are incorporated in some fashion in this book, most notably in Chapter 5; however, this book does not adopt any trend wholesale. Instead you are encouraged to pick and choose the ideas and tools that best suit your situation and needs.

1.5 LOOKING AHEAD: THE ORGANIZATION OF THE BOOK

Starting a new venture is a process that begins long before the business ever opens its doors. That process is rarely linear but rather a more iterative—even chaotic—process; however, the entrepreneurial process does have direction and goals. This book is divided into four sections that reflect the key elements of the entrepreneurial process.

Part One Chapters 1 through 3 focuses on entrepreneurship and opportunity. Chapter 1 serves as an introduction to the field of entrepreneurship and the environment in which entrepreneurs start new ventures today from a macro perspective. Chapter 2, another foundational chapter, explores the entrepreneurial journey from the entrepreneur's perspective, a micro perspective, and helps you prepare for this journey by dealing with the human side of entrepreneurship as a mindset and a way of life. In Chapter 3, the process of entrepreneurship begins and we look at how opportunities are generated through the development of creativity and problem-solving skills.

Part Two (Chapters 4 through 9) explores feasibility analysis for new ventures in detail by examining the various types of hypotheses and tests that entrepreneurs use to determine the conditions under which they can launch their businesses. It includes all the areas of the business that must be researched and understood in order to increase the chances of a successful launch.

Part Three (Chapters 10 through 15) focuses on the elements of business design and operations, and it addresses how to develop a business plan or execution strategy for the startup. Chapter 15 also introduces ways to incorporate ethics and social responsibility into the business.

Any successful business undergoes growth and change, so Part Four (Chapters 16, 17) focuses on these related issues. Chapter 16 looks at how to fund startup and growth and architect a harvest strategy for the entrepreneur and any investors. Chapter 17 explores how to plan for growth and change.

Entrepreneur skills are key not only to economic independence and success but to business survival. The marketplace puts a premium on creativity, initiative, independence, and flexibility. Entrepreneurs who develop those behaviors and display those characteristics will be more likely to succeed.

New Venture Action Plan

- Read broadly about entrepreneurs and new ventures to get ideas for what makes a successful venture.
- Interview an entrepreneur to better understand the entrepreneurial mindset.
- Research new trends, particularly in an industry in which you're interested.

Questions on Key Issues

1. Define the term *entrepreneurship*.
2. How do entrepreneurial ventures differ from small businesses?
3. As the mayor of your community, what incentives would you put into place to encourage entrepreneurship?
4. Describe the current environment for entrepreneurship in your country. Compare that environment to another country in a different part of the world.
5. Which of the entrepreneurial trends discussed in the chapter will have the biggest impact and why?

Experiencing Entrepreneurship

1. Interview an entrepreneur in an industry or business that interests you. Focus on how and why this entrepreneur started his or her business. Be sure to include the following:
   a. Contact information
   b. The entrepreneur's name, address, title, company name, and phone number
   c. Background
   d. How did you find this person and why did you choose her or him?
   e. Why is this person an entrepreneur?
   f. What influenced the entrepreneur to identify and pursue this opportunity?
   g. How did the entrepreneur's background (family history, prior education, and work experience) affect the opportunity discovered?
   h. Describe the opportunity that the entrepreneur decided to pursue and the process the entrepreneur used to evaluate the opportunity.
   i. How did the entrepreneur evaluate the opportunity?
   j. What criteria did the entrepreneur use to decide whether to pursue the opportunity?
   k. What were the perceived risks of this opportunity and how did the entrepreneur expect to manage them?
   l. What did the entrepreneur do to turn the opportunity into a business?
   m. Identify specific activities the entrepreneur undertook to develop the opportunity into a business.
   n. Identify when the entrepreneur did these activities (provide dates: month and year).
   o. Identify important contacts and individuals who were helpful during the startup process.
   p. What major problems did the entrepreneur encounter along the way?
   q. How were these problems solved?
   r. What advice would the entrepreneur give to someone thinking about pursuing an opportunity?
   s. Why was this entrepreneur successful?
2. Analyze how the factors in question 1 affect the entrepreneur's success.

Relevant Case Studies

Case 6 Groupon

Case 7 HomeRun.com

CHAPTER 2

Preparing for the Entrepreneurial Journey

"Success isn't permanent, and failure isn't fatal."

MIKE DITKA, PROFESSIONAL FOOTBALL COACH

CHAPTER OBJECTIVES

- Dispel myths about entrepreneurs.
- Understand the many pathways to entrepreneurship.
- Make entrepreneurship a way of life.
- Prepare to become an entrepreneur.

PROFILE 2.1

ONE JOURNEY THAT INSPIRED AN INDUSTRY

Sometimes you start out wanting to launch a simple business and end up creating an entire industry. At least that's what happened to lifelong friends Adam Lowry and Eric Ryan who combined contemporary design and eco-friendly ingredients to produce a line of liquid soaps and cleaners called Method Home that is now worth over $100 million. Lowry is a chemical engineer with a focus on the environment, while Ryan is a marketing guru with experience at Gap and Saturn, among other companies.

It was the late 1990s in San Francisco when the two Michigan-born-and-bred friends began brainstorming potential products to reinvent. They used a technique that entrepreneurs often use when they want to see something from a different point of view: They took the most mundane household cleaners and said, "What if we…." That process led to the idea that, unlike the dominant products from Procter & Gamble and Clorox that contained harsh, toxic chemicals, their cleaners would be eco-friendly and have beautiful, contemporary designs—in other words, both style and substance. In Lowry and Ryan's view, going green did not mean that the consumer had to suffer. Green could be stylish and practical.

Their first product came out in the midst of the recession of 2001, funded with seed capital of $90,000 that they had raised from friends and family. In true entrepreneurial fashion, they had mixed the products up in a bathtub and delivered them in an old pickup truck. However, in the process, they had used up all their capital. They even remember a dinner with their first investors where they couldn't find a credit card that wasn't maxed out—they had to use their persuasive skills to convince the restaurant owner that they were good for it.

Within a year, they had battled their way into distribution in 800 stores with products that used natural ingredients—palm oil, coconut oil, and corn oil—bottled in attractive, recyclable containers. Lowry and Ryan knew that their core strategy had to be around brand building and that they were going head-to-head with the dominant players in the market. To succeed, they needed to attract one of their favorite designers, Karim Rashid, who turned out to be intrigued by their bold mission and agreed to come on board as the chief creative officer.

Design was one component of their brand-building strategy; speed and innovation were the other critical elements. To achieve all three, they developed a system of 50 subcontractors so they could introduce new products quickly and pull failed products off the shelves just as quickly. Today, they sell more than 130 products in over 8,000 stores. In 2012, Method merged with Ecover to create the world's largest green cleaning company. Taking green to the max, in 2014 the company broke ground on its first Leed-certified U.S. manufacturing plant on Chicago's south side.

Sources: "Method Breaks Ground and Unveils Designs for Its First U.S. Manufacturing Plant," *Method Press Release*, March 4, 2014, www.methodhome.com; "How Two Friends Built a $100 Million Company: The Rise of Method Home," *Inc.com*, June 29, 2010, www2.inc.com/ss/how-two-friends-built-100-million-company; Heffernan, M. "Messy Guys Make Millions Selling Green Cleaning Products," *Reader's Digest* www.rd.com/money/messy-guys-make-millions-selling-green-cleaning-products; and; Van Schagen, S. "An Interview with the Founders of Method Green Home-care Products," March 13, 2008, www.grist.org/article/fighting-dirty/PALL/print.

Entrepreneurship is a personal journey that begins in the mind of an individual. It is a personal journey because business is fundamentally about people—their hopes and dreams, how they interact, make decisions, plan for the future, deal with conflict, and so on. In fact, all of entrepreneurship can be reduced to people. From the entrepreneur's motivation to start a business to the decisions made about growth, customers, facilities, employees, and the exit from the business, everything comes down to people and their needs and motivations. Entrepreneurs' needs and motivations must be satisfied by their startups or they will not have the motivation to persist in their efforts. The new venture must also satisfy the needs of customers or they won't be motivated to buy. Would it surprise you to learn that Amazon.com is ranked number one of the top 100 global brands across seven major industries for best customer experience? This rating did not happen by accident. In fact, there are at least five reasons why this company succeeds where others do not. (1) The customer comes first and every employee understands this, (2) they make the customer experience as easy as possible, (3) they personalize the experience by recommending items based on customers' previous purchases, (4) they reach out to try to save the customer money by letting them know when the price of something they're interested in has gone down, and (5) the company engenders a high degree of trust. That kind of relationship with customers comes from the recognition that business is fundamentally about people.

Entrepreneurs quickly learn the importance of people when they try to put together a founding team. Assembling the right team can, more often than not, make the difference between success and failure. It is very difficult today to start a new company as a solo entrepreneur; mostly because any single person rarely has all the knowledge and skills required to move quickly and make the decisions that will lead to success, so assembling a great team is more critical than many entrepreneurs believe. As part of an enormously successful team, Eric Schmidt stays in the background when it comes to the press about the company he co-founded with his much younger partners Sergey Brin and Larry Page—Google. Brin and Page brought youthful exuberance and new ideas while Schmidt brought business experience and capital. This is a team that believes in creating a family in their workplace environment—"it's easier to get a family united behind a cause than a bunch of employees," says Schmidt.[1] In the fast-moving Internet marketplace, having a team with compatible values and a laser focus on the company vision is a sure route to success.

How large and how fast to grow the business is very much a personal decision. Entrepreneurs who want to balance work with a personal life may choose to start a business that generates significant revenues but does not require a great deal of people and physical assets to manage. That was the position that Julie Fredrickson took. Fredrickson is the co-founder and CEO of playAPI, a New York–based enterprise software company launched in March 2012. She serves clients such as Gap, American Express, and Kate Spade. Unlike many entrepreneurs today, she is not a workaholic; Fredrickson limits her work day to 10 hours or less and keeps her weekends free.[2] Her company builds digital marketing and brand building campaigns that drive customer engagement using game mechanics. PlayAPI may not grow as fast or become as big a company

as many entrepreneurs aspire to achieve, but her goal is to have a successful business *and* a successful life.

The decision about when and how to exit the business is also a very personal one because it is based on the entrepreneur's goals and values. Some entrepreneurs start many ventures in their lifetimes, so they experience the exit multiple times. Others, like Bill Gates of Microsoft (co-founder/CEO from 1976 to 2000) or Michael Dell of Dell Computers, (founder/CEO from 1984 to 2004 and again from 2007 to the present), stay with their businesses for years, choosing not to exit. And still other entrepreneurs see their exit strategy change in response to unforeseen circumstances. In July 1999, John Lusk co-founded Platinum Concepts, Inc with some of his classmates from the Wharton School of Business at the University of Pennsylvania. Their core product was the MouseDriver, a computer mouse shaped like a golf-club head. Lusk's goal was to build the company up as fast as he could, exit in two years, and sell the company to another business. His plan forecasted the company's revenues skyrocketing to $10 million in 6 months. Unfortunately, this did not happen within his predetermined timeframe. It took approximately 18 months to build any sales for the MouseDriver. As a result, Lusk altered his exit strategy, deciding not to sell the company but instead to spend more time diversifying the product line and getting his products into the mass market. Ultimately, Lusk sold the company in 2003 to a large East Coast gift distributor.[3]

As you can see, there really is no place in the entrepreneurial process that is not affected by people. This chapter explores the personal journey to entrepreneurship, what it takes to become a successful entrepreneur, and the many ways to approach entrepreneurship throughout a career.

2.1 SAYING GOODBYE TO STEREOTYPES

Given the frequency with which entrepreneurs are discussed in the media, it is not surprising that stereotypes have developed around them. Not all of these stereotypes are flattering, and most are simply false. In fact, research has failed to identify that stereotypical entrepreneur. There are no psychological or sociological characteristics that can predict with any certainty who will become an entrepreneur or who will succeed as an entrepreneur.[4] This section attempts to dispel some of the myths surrounding entrepreneurs so that the entrepreneurial journey can begin on a solid, factual foundation.

2.1a Myth 1: It Takes a Lot of Money to Start a Business

One false assumption about entrepreneurship is that it takes a lot of money to start a business. Nothing could be further from the truth. For example, Lori Bonn Gallagher parlayed her love of travel and finding unique jewelry into a multimillion dollar business. Starting with $1,000 worth of samples of hand-blown glass jewelry that she discovered in France and a successful selling strategy, Gallagher secured a deal with Nordstrom to begin selling her imported jewelry in the United States. Today her jewelry is designed at her headquarters

in Oakland, California, manufactured in Bali, and sold in retail outlets such as Nordstrom, Discovery Store, and Boston's Museum of Fine Arts museum shop (www.loribonn.com).

Other factors such as the management team and the market being addressed are far more important than your initial resources. In fact, some research has determined that it is not specifically the amount of capital an entrepreneur possesses at startup that is important but rather how many resources of all types (founding team, network of contacts, connections in the value chain, etc.) the entrepreneur can access and/or control.[5]

2.1b Myth 2: It Takes a Great Idea

Jim Collins's research, which was documented in the bestseller *Built to Last*, dispelled the myth that it takes a great idea to start a business. In fact, most of the great businesses that have been successful for at least 50 years—companies such as Walt Disney, Sony, and Merck—didn't start with a great idea. They started with a great team who simply wanted to create an enduring company. Venture capitalists will often say that they will take a great team and a large market opportunity in a fast-growing area over a great idea any day, because it takes a superior team to execute a successful business concept and it takes customers in a fast-growing market to create a great return to the investors.[6] Usually it's not the idea but the execution plan that makes the business a success. Marc Benioff did not invent software as service, but his company Salesforce.com found the pain in hosted solutions and removed it. Instead of having to buy applications to handle each function in the business, companies can access hosted services that can be customized to meet their specific needs. Benioff's success was not a great idea but rather solving a big problem with great execution.

2.1c Myth 3: The Bigger the Risk, the Bigger the Reward

Students of entrepreneurship often hear that risk is correlated with reward—the greater the risk taken, the greater the reward expected. Certainly, it appears that investors hold that point of view. But *risk* is a relative term, and the goal of most entrepreneurs and investors alike is to reduce the level of risk in any venture. In fact, investors *expect* entrepreneurs to do what it takes to reduce the risk for them such as testing the market, acquiring the first customer, and investing some of their own capital in the business, and no one expects the business to be worth less because risk was reduced. It is actually to entrepreneurs' advantage to reduce risk for investors so that they, the entrepreneurs, can retain more of the equity when it comes time to negotiate for an infusion of capital.

2.1d Myth 4: A Business Plan Is Required for Success

There is no question that lenders, investors, and others want to know that an entrepreneur has done his or her homework before they're willing to risk their capital. It is also true that an operating business that wants to secure a loan