

# Chapter 6

## Learning Goals

- 1 Define the term *entrepreneur* and distinguish among entrepreneurs, small-business owners, and managers.
- 2 Identify four different types of entrepreneurs.
- 3 Explain why people choose to become entrepreneurs.
- 4 Discuss conditions that encourage opportunities for entrepreneurs.
- 5 Identify personality traits that typically characterize successful entrepreneurs.
- 6 Summarize the process of starting a new venture.
- 7 Explain how organizations promote intrapreneurship.

## Starting Your Own Business: The Entrepreneurship Alternative

**Y**ou need a strong stomach to be an entrepreneur. You have to be willing to ride to the top of the roller coaster, take the plunge to the bottom, and ride to the top again. Bill Gross knows this. No matter what happens to the companies he starts, he is prepared for the ups and downs. He figures it's the only way to get to the top.

Gross began his entrepreneurial career in college—when he founded a business that sold solar-based products during the energy crisis of 1973. The profits from that first company helped him pay his tuition, and he went on to start another company with his brother Larry. In the early 1990s, he established Knowledge Adventure, an educational software firm that grew to a \$25-million-a-year business before he moved on to launch CitySearch, the first online metro guide. With his



GETTY IMAGES

## Bill Gross: Riding the Entrepreneurial Roller Coaster



string of start-ups, Gross had become a serial entrepreneur, and he'd also caught the attention of celebrity investors such as Steven Spielberg.

But Gross is best known for his firm Idealab, a California-based business incubator for high-tech companies. A decade ago, Idealab appeared to be poised to cash in on the dot-com boom. With 50 start-up companies on its roster, Idealab was on the brink of huge success. But the boom went bust, and with it went many of Idealab's companies. Gross canceled the firm's big plans for an initial public offering (IPO) of stock and closed down its satellite offices in New York, London, and Silicon Valley. Idealab workers lost their jobs, and private investors in the firm counted their financial losses. Company insiders recall this as the "dark time." Company board member Howard Morgan explains, "For all of us, especially Bill, it was a managerial growing up." Gross says, "I never want to be in a position to . . . cut people's jobs again."

Gross is back on the roller coaster again, on his way up. Idealab has cut back on the number of start-ups it funds to about two a year. Each must display true technological

innovation. One such innovation is LaneHawk, vision-recognition software that is being tested at such supermarket chains as Pathmark and Giant Eagle. Internet Brands, which started CarsDirect—an online car-sales firm—is actually making money. And Snap.com enables advertisers such as United Airlines and eBay to pay only when a purchase or transaction takes place because of their ad posting—instead of paying every time someone clicks on the site. Idealab start-ups that survived its early years lend the company credibility as well. Go2.com and Picasa were purchased by Yahoo! and Google, respectively.

Idealab recently completed funding deals with more venture capitalists, indicating that major investors have renewed confidence in Gross. "Bill is starting companies of great promise and of great interest to the venture community," notes Erik Straser, a partner at Mohr Davidow, an investor in the new firm Energy Innovations. "His enthusiasm and passion are still contagious. But now there's a clarity that comes from having to regroup and think about the next wave of companies—and a new ability to take execution to the next level."<sup>1</sup>



Like millions of people, you'd probably love to start and run your own company. Perhaps, just like Idealab's Bill Gross, you've spent time trying to devise a concept for a business you could launch. If you've been bitten by the entrepreneurial bug, you're not alone. More than ever, whether on their own or within an innovative firm, people like you, your classmates, and your friends are choosing the path of entrepreneurship for their careers.

How do you become an entrepreneur? Experts advise aspiring entrepreneurs to learn as much as possible about business by completing academic programs such as the one in which you are currently enrolled and by gaining practical experience by working part or full time for businesses. In addition, you can obtain invaluable insights about the pleasures and pitfalls of entrepreneurship by reading newspaper and magazine articles and biographies of successful entrepreneurs. These sources will help you learn how entrepreneurs handle the challenges of starting their businesses. For advice on how to launch and grow a new venture, turn to magazines such as *Entrepreneur*, *Success*, *Black Enterprise*, *Hispanic*, and *Inc.* Entrepreneurship associations such as the Asso-

ciation of African-American Women Business Owners and the Entrepreneurs' Organization also provide invaluable assistance. Finally, any aspiring entrepreneur should visit these Web sites:

- Center for Entrepreneurial Leadership (<http://www.celcee.edu>)
- Entrepreneur.com (<http://www.entrepreneur.com>)
- Kauffman eVenturing (<http://www.eventuring.org>)
- The Small Business Administration (<http://www.sba.gov>)
- *Wall Street Journal*, StartupJournal (<http://www.startupjournal.com>)

In this chapter, we focus on pathways for entering the world of entrepreneurship, describing what entrepreneurs do, the different kinds of entrepreneurs, and why a growing number of people choose to be entrepreneurs. It discusses the business environment in which entrepreneurs work, the characteristics that help entrepreneurs succeed, and the ways they start new ventures. The chapter ends with a discussion of methods by which large companies try to incorporate the entrepreneurial spirit.

**entrepreneur** person who seeks a profitable opportunity and takes the necessary risks to set up and operate a business.

## WHAT IS AN ENTREPRENEUR?

You learned in Chapter 1 that an **entrepreneur** is a risk taker in the private enterprise system, a person who seeks a profitable opportunity and takes the necessary risks to set up and operate a business. Consider Sam Walton, Wal-Mart's founder, who started by franchising a few small Ben Franklin variety stores, and then opened his own Walton Five and Dime stores. Forty-five years later, this small venture has grown into a multibillion-dollar global business that is the largest company on earth.

Entrepreneurs differ from many small-business owners. Although many small-business owners possess the same drive, creative energy, and desire to succeed, what makes entrepreneurs different is their overwhelming desire to make their businesses grow. Sam Walton wasn't satisfied with just one successful Ben Franklin franchise, so he purchased others. And when that wasn't enough, he started and grew his own stores. Entrepreneurs combine their ideas and drive with money, employees, and other resources to create a business that fills a market need. That entrepreneurial role can make something significant out of a small beginning. In preparing its annual list of the 500 fastest-growing U.S. companies, *Inc.* magazine found that 29 percent started with less than \$20,000 in the bank, that 14 percent started with less than \$10,000, and that 15 percent started with less than \$1,000. Yet 34 percent of the 500 CEOs on the list estimated their current net worth at more than \$5 million.<sup>2</sup>

### "They Said It"

"It's just paper. All I own is a pickup truck and a little Wal-Mart stock."

—Sam Walton  
(1918–1992)  
*American entrepreneur*

Entrepreneurs also differ from managers. Managers are employees who direct the efforts of others to achieve an organization's goals. Owners of some small start-up firms serve as owner-managers to implement their plans for their businesses and to offset human resource limitations at their fledgling companies. Entrepreneurs may also perform a managerial role, but their overriding responsibility is to use the resources of their organizations—employees, money, equipment, and facilities—to accomplish their goals. Indeed, their zeal to make their companies successful, particularly in the start-up stage of a new venture, can often turn entrepreneurs into terrible managers. Jim Ansara, founder of Boston-based Shawmut Design and Construction, now a \$500 million construction company, said, "There were problems with my management style, and that started to create morale problems. The people I had were very dedicated—it was a cultlike atmosphere in most of the good ways—but they all would have said I was a complete maniac. I was way too intense, I pushed too hard, I didn't listen, I couldn't be reasoned with. Luckily I had a couple of people who were brave enough to tell me that consistently."<sup>3</sup> A key indication of Ansara's success as an entrepreneur was his willingness to recognize his limitations as a manager. When he finally recognized the negative effect he was having on his business, he hired others who were better suited to lead his business than was he.

Studies have identified certain personality traits and behaviors common to entrepreneurs that differ from those required for managerial success. One of these traits is the willingness to assume the risks involved in starting a new venture. Some, like Jim Ansara, the founder of Shawmut Design and Construction, leave their jobs to start their own companies and become successful entrepreneurs. Others find that they lack the characteristics required to start and grow a business. Entrepreneurial characteristics are examined in detail in a later section of this chapter.

## CATEGORIES OF ENTREPRENEURS

Entrepreneurs apply their talents in different situations. These differences give rise to a set of distinct categories of entrepreneurs. As Figure 6.1 shows, four basic categories exist: classic entrepreneurs, serial entrepreneurs, intrapreneurs, and change agents.

**Classic entrepreneurs** identify business opportunities and allocate available resources to tap those markets. The story of Ben Serotta exemplifies the actions of a classic entrepreneur. Serotta is the founder of Serotta Competition Bicycles in Saratoga Springs, New York, which sells custom-made bikes that cost from \$2,600 to \$15,000. Serotta realized that dedicated cyclists would gladly pay big bucks for his company's bikes, as long as they fit their owners—and no one else—like a glove. Serotta's School of Cycling Ergonomics teaches bike shop

**classic entrepreneur** person who identifies a business opportunity and allocates available resources to tap that market.



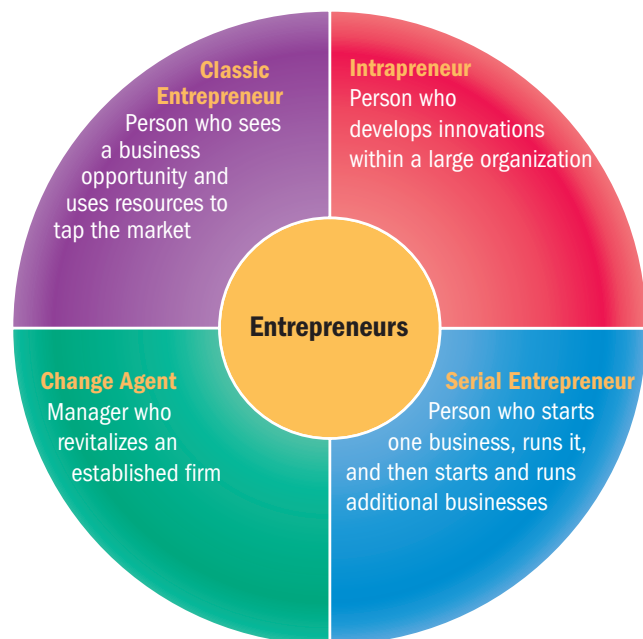
AP PHOTO/REED SAXON

Entrepreneurs are risk takers and people who have a unique vision of the future. Burt Rutan, already a famous aerospace engineer, brought his dream of commercial spaceflight to reality when his SpaceShipOne took humans to the edge of space and back twice. Rutan's 125-person firm, Scaled Composites, achieved its success without government funding or assistance but with help from private funds from Microsoft co-founder Paul Allen, shown here with Burt.

### assessment check

1. What tools do entrepreneurs use to create a new business?
2. How do entrepreneurs differ from managers?

## 6.1 Categories of Entrepreneurs



**serial entrepreneur** person who starts one business, runs it, and then starts and runs additional businesses in succession.

**intrapreneur** entrepreneurially oriented person who develops innovations within the context of a large organization.

**change agent** manager who revitalizes an established firm to keep it competitive.

ping), easyMoney (insurance and credit cards), easyCinema (low-cost movie theaters and online DVD rentals), easyBus, easyHotel, easy4men (toiletries), easyJobs, easyPizza, easyMusic (music downloads by the track), easyCruise, easyMobile (cell phones), and easyWatch (watches for men, women, and children).<sup>5</sup>

**Intrapreneurs** are entrepreneurially oriented people who develop new products, ideas, and commercial ventures within large organizations. For example, 3M develops innovative products by encouraging intrapreneurship among its personnel. Some of 3M's most successful products began as inspirations of intrapreneurs. Art Frey invented the Post-it note, and intrapreneurs Connie Hubbard and Raymond Heyer invented the Scotch-Brite Never Rust soap pad. Intrapreneurship is discussed later in this chapter.

**Change agents**, also called *turnaround entrepreneurs*, are managers who revitalize established firms to keep them competitive in today's marketplace. When Bank of America (BoFA) paid \$47 billion to acquire FleetBoston, the general assessment was that BoFA had "grossly overpaid," especially given FleetBoston's weak profits and customer service. But thanks to Liam McGee, BoFA's primary change agent and president of BoFA's consumer and small-business division, the critics are turning out to be wrong. McGee has worked with managers and employees at the 1,500 branch banks previously run by FleetBoston to change everything from training to the corporate culture. And those changes are beginning to work. For instance, when McGee visited a bank branch in Boston's historic district, he found the branch manager

and customer representatives greeting customers as they entered the branch. Said McGee, "If you'd visited here six months ago, you would have seen all these people hidden back in their offices."<sup>6</sup> Also, thanks to new software that approves or rejects mortgage and home equity loans in just 30 minutes, free checking and online bill paying, extensive training on how to interact and greet customers, and a new bonus system that rewards employees only if customers sign up for and use bank services for at least four months, BoFA has added 184,000 new checking accounts and 196,000 new savings accounts at Fleet Boston's old bank branches in the first year, all while cutting more than \$900 million in costs.

### assessment check

1. Why do companies encourage intrapreneurs?
2. What do intrapreneurs and change agents have in common?





# HIT & MISS

## John H. Johnson Creates a Business— and an Empire

When he died at age 87, John H. Johnson had left a huge imprint on the publishing world. One of the most powerful and influential U.S. entrepreneurs, he was the first to recognize the African American market for media and cosmetics. Johnson founded his magazine *Ebony* in 1945, the first general-interest monthly magazine for African Americans. Today its circulation tops 1.7 million. In 1951, he followed with *Jet*, a weekly newsmagazine written from an African American perspective. *Jet's* current circulation hovers just under 1 million. And in 1973, Johnson established Fashion Fair Cosmetics—skin care and cosmetics formulated especially for African American women. Fashion Fair also sponsored a large touring fashion show run by Johnson's wife, Eunice.

Johnson Publishing Company—an empire that includes publishing, cosmetics, television production, and fashion—is based in Chicago. With revenues of about \$500 million, it is the nation's largest black-owned business. Johnson's daughter, Linda Rice Johnson, now the chief executive officer of the firm, describes her late father as "the greatest salesman and CEO I have ever known." Johnson grew up in poverty but did not let that stop him. "I thought my way out of poverty," he once said. "*Ebony* was my passport."

As an entrepreneur, Johnson insisted on controlling his own companies. He never turned them over to others

and tried to keep top positions within the family whenever he could. His daughter, Linda, held several executive positions before becoming CEO upon her father's retirement, and his wife, Eunice, remains secretary-treasurer. Johnson Publishing is a privately held firm. As a visible public figure, Johnson endured criticism from workers who thought he drove them too hard and some African Americans who thought he was too oriented toward the middle class. But Lerone Bennett Jr., executive editor emeritus of *Ebony*, points out, "He virtually invented the black consumer market. He was the first publisher I know of who went to Madison Avenue and persuaded them that they had to address the African American market and use African American models. It paid off."

### Questions for Critical Thinking

1. Describe two ways in which you believe John H. Johnson has affected U.S. business in general.
2. Describe ways in which John H. Johnson—and his company—could be considered innovative.

**Sources:** Johnson Publishing Web site, accessed June 17, 2006, [www.johnsonpublishing.com](http://www.johnsonpublishing.com); Tara Burghart, "Hundreds Remember Johnson," *Chicago Sun-Times*, accessed June 17, 2006, <http://www.suntimes.com>; Cora Daniels, "Pioneers," *Fortune*, August 22, 2005, pp. 72–88; Jason George, "Mourners Reflect on Inspiration," *Chicago Tribune*, August 15, 2005, section 1, pp. 1, 14; Charles Storch and Barbara Sherlock, "A Publishing Pioneer," *Chicago Tribune*, August 9, 2005, section 1, pp. 1, 16.

## REASONS TO CHOOSE ENTREPRENEURSHIP AS A CAREER PATH

If you want to run your own business someday, you'll have plenty of company. Studies indicate that more than 11 percent of Americans, about one of every nine people, run their own businesses.<sup>7</sup> Surveys, however, generally indicate that many more people, as many as half of Americans, want to start their own businesses. This interest is even stronger among 14- to 19-year-olds; nearly two-thirds want to start and run their own business.<sup>8</sup> While general interest in entrepreneurship is very high, how many Americans are actually taking steps to start their own businesses at any particular time? In an average month, Americans start approximately 550,000 new businesses!<sup>9</sup> And, that number is up substantially in recent years.

The past two decades have witnessed a heightened interest in entrepreneurial careers, spurred in part by publicity celebrating the successes of entrepreneurs such as Pierre Omidyar, who founded eBay; Oprah Winfrey, who has used her immensely popular television program

### "They Said It"

"Ignore the stock market, ignore the economy, and buy a business you understand."

—Warren Buffett (b. 1930)  
CEO, Berkshire Hathaway,  
and one of America's richest  
entrepreneurs



ELLICE PEREZ

Warren Brown started baking to relieve the stress of his day job as a federal litigator in Washington, D.C. From hosting dessert parties with his friends, he moved on to open his small bakery, CakeLove. That business became so successful that the small shop was always jammed with customers. The resolution? Brown's Love Café, which opened across the street.

As pointed out in Figure 6.2, people become entrepreneurs for one or more of four major reasons: a desire to be their own boss, succeed financially, attain job security, and improve their quality of life. Each of these reasons is described in more detail in the following sections.

## Being Your Own Boss

Self-management is the motivation that drives many entrepreneurs. No entrepreneur matches this portrait of the American independent professional as an individual who has control over when, where, and how she works more than Liz Lange, the 30-something founder and CEO of Liz Lange Maternity.

Lange recognized a real need while working as a designer's assistant. Expectant mothers seeking sophisticated maternity wear quickly discovered that they would have to make do

with baby-doll dresses or pants with a hole cut in the front—and a Lycra panel to accommodate their unborn child. Lange found herself offended by what was available. “I looked around the market to see what was out there and was frankly horrified. It was all so un-upscale, and much of it was oversized so that a woman could get through nine months in the same outfit. During her early days, a mother-to-be had nothing she could really fit into. It was all frilly—I mean, you are having a baby, not becoming a baby.”<sup>11</sup>

Lange left her job to begin work designing a few basic items to show to retail buyers. They stated that pregnant women would not spend money on high-end maternity clothing. Undaunted, she borrowed \$50,000 from family and friends and opened a small New York City office where she sold her made-to-order clothes by appointment. Word of the high-fashion maternity clothing spread like wildfire and led to an article in the *New York Times* Style section. Sales exploded after that, and Lange decided to bypass department stores in favor of selected high-fashion boutiques. Soon her slim pants, cash-

Figure

### 6.2 Why People Become Entrepreneurs



mere sweaters, and fitted slinky dresses were attracting super stylish expectant moms, including such celebrities as Cindy Crawford and Catherine Zeta-Jones.

Today, Lange runs stores in Beverly Hills, on New York's Madison Avenue, and on Long Island, New York, as well as producing an online catalog (<http://www.lizlange.com>) and a separate, less-expensive line of clothes marketed at more than 1,300 Target stores nationwide. Annual sales exceed \$10 million. Both Lange and her satisfied customers agree that her decision to be her own boss was a wise one.

## Financial Success

Entrepreneurs are wealth creators. Many start their ventures with the specific goal of creating a profitable business and reaping its financial rewards. Why? Because they believe they won't get rich by working for someone else. And studies indicate they're generally right. While only one in five American workers is self-employed, more than two-thirds of all millionaires are self-employed. Consequently, if you run your own business, you're more likely to become wealthy.<sup>12</sup> The business press, of course, is quick to publish stories about the wealth and "self-made" successes of today's entrepreneurs. For example, it's well known that Google founders Sergey Brin and Larry Page made over \$14 billion each when Google sold its shares in an initial public offering, and they are worth much more than that today.<sup>13</sup> Less well known, though, are successful entrepreneurs such as Constantino de Oliveira Jr. and his father, who founded Brazil's third largest airline, Gol Linhas Aéreas Inteligentes (Gol Intelligent Airlines), just five years ago. Gol, or *goal* in English, is the most profitable airline in the world, with an operating margin of 37 percent compared with 20 percent for extremely successful Southwest Airlines. Gol achieves those profits with prices so low that it put its major competitor, Transbrasil, out of business in less than a year. By growing from 38 to 76 planes over the next few years, Gol will likely overtake Varig Airlines and become Brazil's second-largest airline. Today, the value of the Oliveira family's share of Gol is worth more than \$2.4 billion.<sup>14</sup>

Although entrepreneurs often mention financial rewards as a motive for starting their businesses, the path to riches can be long and uncertain. As you learned in Chapter 5, one-third of newly started small firms are out of business within two years, more than half within four years, 61 percent within six years, and 82 percent within ten years.<sup>15</sup> So there's clearly no guarantee of success. Furthermore, among the CEOs heading America's fastest-growing private companies (the so-called *Inc.* 500), almost one-fourth took no compensation at all from their business during its first five years of operation. For example, at first, Stephen Culp, founder and CEO of Smart Furniture, a modular-furniture company in Chattanooga, paid everyone in his company *but* himself. Culp reasoned, "If I can survive on cereal and take all the cash that I would have spent on a more extravagant lifestyle and put it back into the company, it increases my chances of success."<sup>16</sup>

Entrepreneurs often work long hours to bring their dreams to life. Mexican immigrants Pablo and Juanita Ceja first worked as grape pickers in the Napa Valley fields from before dawn until after sunset. They scrimped and saved and eventually bought their first fifteen acres of grape fields, which they have added to over the years. Thanks to son Armando, who studied winemaking at UC Davis, the family became prize-winning vintners. Says Armando, "It's the American dream."



© ED KASHI/CORBIS



## Job Security

Although the demand for skilled employees remains high in many industries, working for a company, even a *Fortune* 500 firm, is no guarantee of job security. In fact, over the last ten years, large companies sought efficiency by downsizing and actually eliminated more jobs than they created. As a result, a growing number of American workers—both first-time job seekers and laid-off long-term employees—are deciding to create their own job security by starting their own businesses. Why? Because “even if you’re the creative director for Disney, Comcast could buy the company, and you could be out of a job,” says Mary Furlong, who teaches entrepreneurship at Santa Clara University.<sup>17</sup> While running your own business doesn’t guarantee job security, the U.S. Small Business Administration has found that most newly created jobs come from small businesses, with a significant share of those jobs coming from new companies.<sup>18</sup>

The key difference is that an entrepreneur’s job depends not on the decisions of employers but instead on the decisions of customers and investors and on the cooperation and commitment of the entrepreneur’s own employees. People like Jim Minick, 51, of Smyrna, Georgia, who has been laid off by employers three times in 25 years, would rather work for themselves than for others. Minick, who started his own business, noted, “You don’t want to find yourself 55 or 60 with no one wanting to hire you. That’s a concern with any 50-year-old.”<sup>19</sup> However, many younger workers feel the same way. Twenty-three-year-old pastry chef Sarah Levy quit her high-stress, low-paying restaurant jobs to start her own business, Sarah’s Pastries & Candies, in Chicago. Regarding the change, Levy said, “I feel better when I’m working for myself and building a name for myself.”<sup>20</sup>

## Quality of Life

Entrepreneurship is an attractive career option for people seeking to improve their quality of life. Starting a business gives the founder some choice over when, where, and how to work. Brett Schulte became a **lifestyle entrepreneur**, a person who starts a business to reduce work hours and create a more relaxed lifestyle, after vacationing in Mexico’s Baja California. Schulte quit his job at a dot-com company, moved his family to Mexico, and became a Web consultant. Schulte points out how technology has allowed him to be a lifestyle entrepreneur, saying, “Technology is making geography less important. [Internet telephone service] is enabling me to have a U.S. phone number in Mexico.”<sup>21</sup> His U.S. clients don’t have to know that he’s working from his laptop while sitting at the beach.

Despite Brett Schulte’s relaxed work environment, most entrepreneurs work long hours and at the whims of their customers. For instance, Eva Rosenberg, who runs a tax accounting business from her home in Irvine, California, began as a lifestyle entrepreneur, working just three days a week. But her business grew so much that she obtained a regular office and began working long hours. Said Rosenberg, “I had so many clients that I was pretty much working almost seven days a week, morning until night. I had an office on Ventura Boulevard, and I was always there. Then somewhere along the way I got married, and I wanted to see my husband.”<sup>22</sup> Michelle Tell experienced a similar time crunch when she started her company, Preferred Public Relations & Marketing, in Las Vegas. Tell, who had just left a job with the MGM Grand Hotel and Casino, said, “My goal was to have five clients and take it easy for a while.” However, one month after starting her business, she had seven clients. Today, she has 30 clients and seven full-time employees. Says Tell, “Our company took off like a storm, and we find ourselves working seven days a week.”<sup>23</sup>

For other lifestyle entrepreneurs, quality of life is not defined by how many hours they work but by their ability to fulfill broader social objectives through their ventures. Darren Patrick founded Rainbow Play Systems in Brookings, South Dakota, when he was 20. Three

**lifestyle entrepreneur**  
person who starts a  
business to reduce work  
hours and create a  
more relaxed lifestyle.

years later, he was a millionaire. Today, Rainbow makes 64 different kinds of redwood and red cedar residential playground equipment and sells it in 250 stores in the United States, Canada, Mexico, Panama, Spain, and South Korea. This year, the company will ring up more than \$500 million in sales, making Rainbow one of the nation's largest consumers of redwood.

And that's what worried Patrick from the start. "Since the onset of our business, we have always been concerned about our lumber purchases and the mills that fulfill them," he states. Rainbow buys lumber only from mills participating in sustained-yield programs that protect the redwood population. The firm goes further by educating purchasers about the benefits offered by such programs. As a result, Patrick says, "Today, we have more redwood trees than ever before."<sup>24</sup>

### assessment check

1. Are entrepreneurs more likely than employees to achieve financial success?
2. What factors affect the entrepreneur's job security?

## THE ENVIRONMENT FOR ENTREPRENEURS

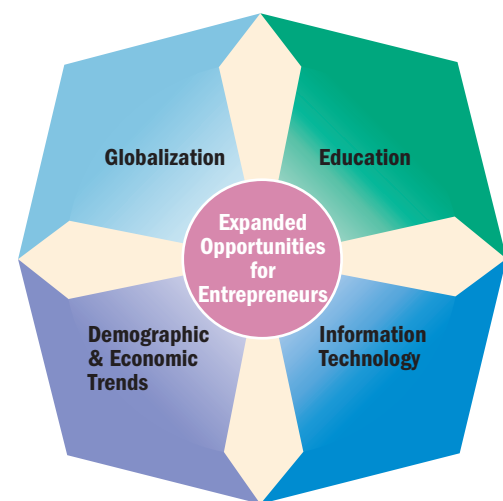
If you are motivated to start your own company, several factors suggest that now may be the right time to begin. First, as discussed earlier in the chapter, the status of entrepreneurship as a career choice has been rising. Entrepreneurship began moving toward the business mainstream in the early 1980s after Steve Jobs of Apple Computer and other high-tech entrepreneurs gained national attention by going public—that is, selling stock in their companies. And, as discussed later in the chapter, today's entrepreneurs are also reaping the benefits of financial interest among investors. In addition to favorable public attitudes toward entrepreneurs and the growing number of financing options, several other factors—identified in Figure 6.3—also support and expand opportunities for entrepreneurs: globalization, education, information technology, and demographic and economic trends. Each of these factors is discussed in the following sections.

### Globalization

The rapid globalization of business, described in preceding chapters, has created many opportunities for entrepreneurs. Entrepreneurs market their products abroad and hire international talent. Among the fastest-growing small U.S. companies, almost two of every five have international sales. One entrepreneur who sees international opportunities is Mia Abbruzzese, who, after working for Stride Rite developing shoes to be sold at Target department stores, thought to herself, "If I can do this for Target, what's to say that I can't do it for myself?" So Abbruzzese quit her job at Stride Rite, started her own company, and began working her contacts in China to find a factory that was willing to begin production of her new line of Morgan & Milo shoes. Abbruzzese used freelance designers to develop the look she wanted and then found a maker of shoe parts in China that wanted to move up to producing entire shoes. In her first year, her company made 65,000 shoes and had sales of \$800,000. Furthermore, her Morgan & Milo line of shoes now sells at Nordstrom's, Macy's, and Zappos.com, a leading Web shoe retailer.<sup>25</sup>

Growth in entrepreneurship is a worldwide phenomenon. The role of entrepreneurs is growing in most industrialized and newly industrialized nations as well as in the emerging free-market countries in central and eastern Europe. However, as shown in Figure 6.4, the level of entrepreneurship

Factors Supporting and Expanding Opportunities for Entrepreneurs



Figure

6.3



© ERIC WEEKS

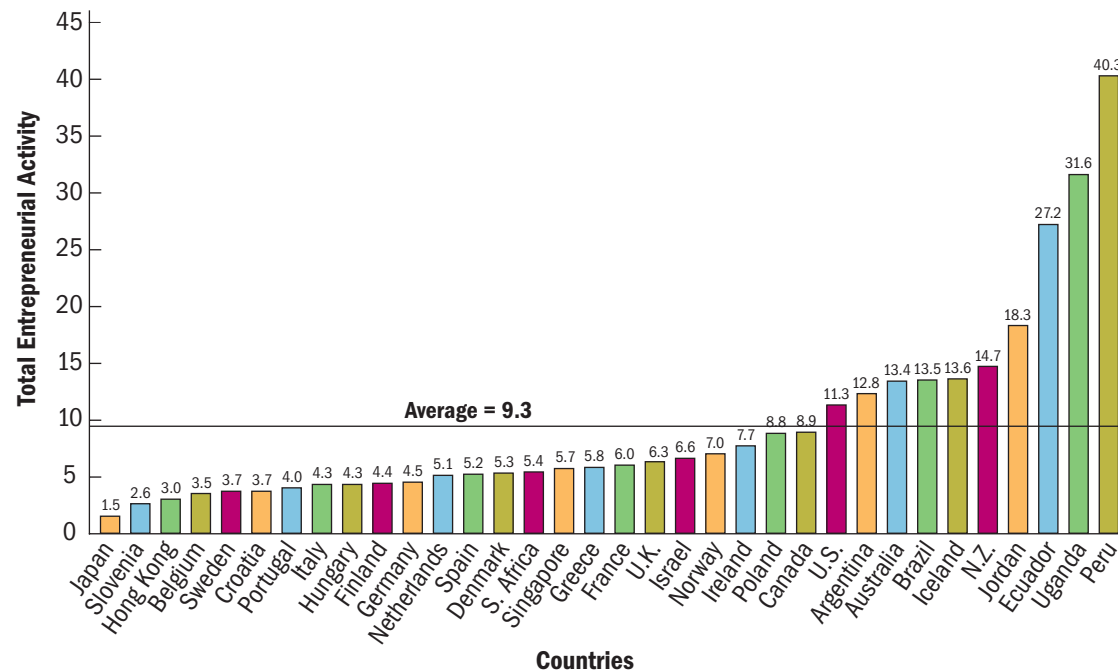
The entrepreneurial spirit thrives in many cultures. Rainsey Ker's family left Cambodia when he was six to flee oppression of the brutal Khmer Rouge government. Ker's Mitpheap Asian Market in Portland, Maine, carries Asian, African, and Hispanic foods. Ker is not content to run his small store, though. He is working part time as a real estate agent and hopes eventually to open his own agency.

Figure

varies considerably. Worldwide, more than 9 percent of adults are starting or managing a new business. But in Peru, almost four in ten adults are engaged in entrepreneurial activity, followed by Uganda (32 percent), Ecuador (27 percent), Jordan (18 percent), New Zealand (15 percent), and Iceland (14 percent). The United States, with more than 11 percent of adults qualifying as entrepreneurs, is currently in tenth place.<sup>26</sup>

Still, Figure 6.4 also shows that entrepreneurs in many other countries, such as Japan (2 percent), Slovenia and Hong Kong (3 percent each), and Belgium and Sweden (4 percent each), find it much more difficult to start businesses. Obstacles include government regulations, high taxes, and political attitudes that favor big business. In the United Kingdom, which has a below-average rate of entrepreneurship (slightly more than 6 percent), four in ten small-business owners say they would not start a new company because of the heavy burden of government regulations.<sup>27</sup> In addition, cultural values in other countries may differ from those in the United States and other countries, where individualism and risk taking are admired and where high value is placed on seizing a business opportunity.

6.4 Levels of Entrepreneurial Activity in 34 Countries



Source: Zoltan Acs, Pia Arenius, Michael Hay, and Maria Minniti, "Global Entrepreneurship Monitor: Executive Report," Global Entrepreneurship Monitor Consortium, accessed June 17, 2006, <http://www.gemconsortium.org>.



## Education

The past two decades have brought tremendous growth in the number of educational opportunities for would-be entrepreneurs. Today, more than 100 U.S. universities offer full-fledged majors in entrepreneurship, another 73 offer an emphasis in entrepreneurship, and hundreds more offer one or two courses in how to start a business.<sup>28</sup> Some schools, including Alfred University, University of St. Thomas, and Miami University of Ohio, offer entrepreneurship courses to nonbusiness students, on the assumption that people in other disciplines will eventually start businesses, too.

Another way business schools are responding to the interest in entrepreneurship is by helping their students start businesses. Babson College has a program in which a few students are permitted to replace several of the usual classes with launching an actual business under coaching from an entrepreneur-turned-professor. At the University of Maryland, entrepreneurship students live together in an exclusive, apartment-style residence hall that, with dedicated meeting rooms, offices, and computer labs, is designed to encourage interaction and ideas. Students are taught by entrepreneurship professors, experienced entrepreneurs, CEOs, and technology specialists from the engineering school and industry. Students in this program are not only expected to start a business but also given responsibility to run the university's business plan competition and technology start-up boot camp.<sup>29</sup>

Besides schools, many organizations have sprouted up in recent years to teach entrepreneurship to young people. The Kauffman Center for Entrepreneurial Leadership offers training programs for learners from kindergarten through community college. The center's Entreprep summer program, which is taught in conjunction with local colleges and universities, teaches high school juniors how to start and manage a company. Students in Free Enterprise (SIFE) is a worldwide not-for-profit organization in which college students, working with faculty advisors, teach grade school and high school students and other community members the value of private enterprise and entrepreneurship.<sup>30</sup> The Association of Collegiate Entrepreneurs has chapters on many college campuses in the United States and Canada.

The question, of course, is whether students who major in entrepreneurship or take entrepreneurship classes are any more likely to successfully start a business. In fact, students who graduate from entrepreneurship programs are three times as likely to be self-employed and three times more likely to help start new companies.<sup>31</sup> Jeffrey Betz, Cecilia Domingos, and Michael Lobsinger started their company, Orca Gear, while in the graduate entrepreneurship program at Rensselaer Polytechnic Institute in Troy, New York. The company designs and manufactures Float Tech outerwear—lightweight all-season jackets with built-in inflatable life jackets; one tug on the rip cord inflates the life jacket. Says Betz, “Our story definitely supports that you can learn entrepreneurship.”<sup>32</sup>

## Information Technology

The explosion in information technology (IT) has provided one of the biggest boosts for entrepreneurs. As computer and communications technologies have merged and dropped dramatically in cost, entrepreneurs have gained tools that help them compete with large companies. Information technology helps entrepreneurs work quickly and efficiently, provide attentive customer service, increase sales, and project professional images. New technologies helped Kelly Ford's new company, Oriel Wines, which imports and exports 24 handmade wines from 22 wine-producing regions and countries, to sound, act, and look like a large company. Said Ford, “We're a luxury brand, so customers have to think we're bigger than we really are.”<sup>33</sup> But with Ford and just five other employees, Oriel Wines is a tiny company that just looks and acts big, thanks to NetSuite software, which manages inventory, accounting, customer orders, newsletters, and marketing, all from one central computer.



MICHAEL NEWMAN/PHOTODISC

Jeremiah Hutchins combined his knowledge of information technology with his desire to help parents and law enforcement officials. The mini-CDs produced by his company, Safe Kids Card, help locate lost or kidnapped children by storing vital statistics and pictures of children.

opportunity for entrepreneurs. Because customers can go online to check prices and buy from large or small companies anywhere in the world, entrepreneurs need to find a distinctive advantage over big competitors. Raymond Galeotti, president of EvesAddiction.com, which sells jewelry, found that advantage for his small business by pairing with one of the Internet's largest companies, Yahoo! For as little as \$30 a month, Yahoo! Small Business Web hosting provides tools to build and maintain his Web site, specialized marketing services that recommend new products to his customers based on their previous purchases, secure purchasing via PayPal and credit cards, and 24-hour toll-free consulting. Most important, though, says Galeotti, "We wanted reliability."<sup>35</sup> And, since he signed on with Yahoo!, his Web site hasn't been down even once.

Advances in information technology have also created demand for new products, and entrepreneurs have risen to the challenge. Some have started businesses that directly apply information technology. After hearing reports about a missing girl, and "all the talk shows . . . saying, 'If only they'd had better identification information about her,'" Jeremiah Hutchins wondered if the mini-CD business cards that he was producing could enable stressed parents to quickly provide police with the information they needed, such as allergies, scars, birthmarks, blood type, height, weight, and photos to identify and track down lost or abducted children. Today, Safe Kids Cards sells mini CDs, about the size of a credit card, through franchises in the United States, Australia, Canada, Ireland, New Zealand, and South Africa.<sup>34</sup>

Yet the Internet is a challenge as well as an

## Demographic and Economic Trends

Demographic trends, such as the aging of the U.S. population, the emergence of Hispanics as the nation's largest ethnic group, and the growth of two-income families, create opportunities for entrepreneurs to market new goods and services. Entrepreneurs take advantage of such trends to offer everything from retirement homes to grocery delivery services. For example, Alere Medical, based in Reno, Nevada, sells equipment that enables nurses to monitor heart-failure patients from their homes. Patients step onto a biometric device the size of a scale, which monitors and reports the patient's weight and physical symptoms. While standing on the monitor, patients use a small interactive display device to respond to yes and no questions about their health. That information is forwarded to Alere's database, where a nurse analyzes the data and immediately notifies physicians and patients when problems are indicated. With 4.6 million Americans already diagnosed with heart failure,

and an aging population, Alere's business, which reduces hospital costs and stays and allows patients to recover and monitor their health at home, will continue to grow.<sup>36</sup>

### assessment check

1. To what extent is entrepreneurship possible in different countries, and what opportunities does globalization create for today's entrepreneurs?
2. Identify the educational factors that help expand current opportunities for entrepreneurs.
3. Describe current demographic trends that suggest new goods and services for entrepreneurial businesses.

## CHARACTERISTICS OF ENTREPRENEURS

The examples of entrepreneurship you've read about so far suggest that people who strike out on their own are a different breed. Well, they are. Successful entrepreneurs are more likely to

have had parents who were entrepreneurs. They also tend to possess unique personality traits. Researchers who study successful entrepreneurs report that they are more likely to be inquisitive, passionate, self-motivated, honest, courageous, flexible, intelligent, and reliable people. The eight traits summarized in Figure 6.5 are especially important for people who want to succeed as entrepreneurs.

## Vision

Entrepreneurs begin with a *vision*, an overall idea for how to make their business idea a success, and then they passionately pursue it. Bill Gates and Paul Allen launched Microsoft with the vision of a computer on every desk and in every home, all running Microsoft software. Their vision helped Microsoft become the world's largest marketer of computer software. It guided the company and provided clear direction for employees as Microsoft grew, adapted, and prospered in an industry characterized by tremendous technological change.

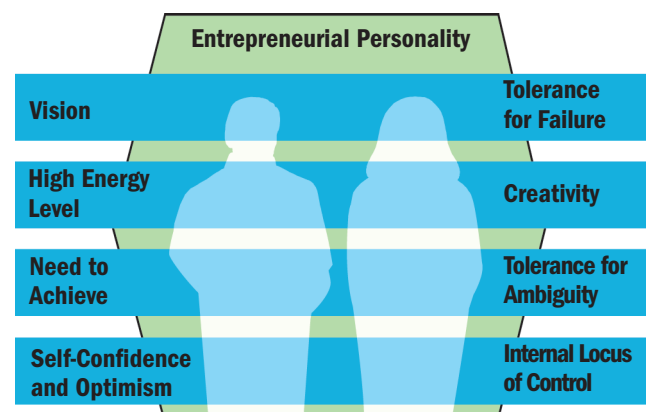
Talk about vision, about the ability to think out of the box; talk about the Thomas Edison of the 21st century and you're not talking about Bill Gates, though. No, these descriptions are for wildly successful inventor and entrepreneur Dean Kamen. The tireless and gregarious father of the first portable insulin pump, heart stent, and stair-climbing wheelchair certainly has vision, but he also keeps a close watch on the bottom line of the numerous successful companies that have resulted from his technological breakthroughs.

His latest creation has met with mixed success. The Segway Human Transporter is a two-wheeled self-balancing electric-powered superscooter that allows people to zip along sidewalks and in large business facilities at eight to twelve miles per hour. While Segway sales have been slower than expected, police and security forces, tour companies (you can take guided Segway tours of Atlanta, Budapest, Chicago, Paris, and Washington D.C.), businesses, and people with disabilities are buying Segways.<sup>37</sup> Shane Latham, who was born without a hip, uses a Segway instead of a wheelchair. The Segway allows him to hold hands with his wife while shopping. Moreover, he says, "I am no longer looking at people's belt buckles when I talk to them. I can look them eye to eye."<sup>38</sup>

## High Energy Level

Entrepreneurs willingly work hard to realize their visions. Starting and building a company require an enormous amount of hard work and long hours. Some entrepreneurs work full time at their regular day jobs and spend weeknights and weekends launching their start-ups. Many devote fourteen-hour days seven days a week to their new ventures. In his ten-year study of entrepreneurs, author Amar Bhidé found that what distinguishes successful entrepreneurs from other

Characteristics of Entrepreneurs



JONATHAN DRAKE/EPA/LANDOV

The Segway Human Transporter has been a hit for a variety of people—including those with physical handicaps and law enforcement officers. The Segway is just one idea that inventor Dean Kamen has dreamed up and brought to market.



business owners is that they “work harder, hustle for customers, and know that the opportunity may not last for more than six or eight months.”<sup>39</sup>

A major reason entrepreneurship demands hard work is that start-up companies typically have a small staff and struggle to raise enough capital. Under these resource constraints, the entrepreneur has to make up the difference. When two engineers started Gilat Satellite Networks in Petah Tikva, Israel, to build satellite systems, they had to work extremely hard to compete with giant corporations like EchoStar. They offered to do whatever was necessary to tailor a system to the client’s needs. Gilat’s first customer was Rite Aid, the drugstore chain. The company won the contract by agreeing to adapt its satellite system in significant ways. The two founders and four other members of the project’s development team put in many nights and evenings to achieve their commitment. Co-founder Amiram Levinberg says simply, “In a high-tech start-up such as Gilat . . . it’s a given that there will be some 12-hour days.”<sup>40</sup>

With studies indicating that the average entrepreneur works between 52 and 56 hours per week, and that one-fifth of all entrepreneurs work seven days a week, the challenge for entrepreneurs is to balance the hard work with the rest, recreation, and family time that are so essential to good health, quality of life, and continued creativity.<sup>41</sup> Serial entrepreneur Peyton Anderson, CEO of North Carolina-based Affinergy, admits that he thinks about business when with his children. “I have three kids 4 and under. And even while I’m singing to them in the bathtub, in the back of my mind, I’m grinding on stuff at work.” Still, Anderson creates time for his children by working after they go to bed, not working one day per weekend, and coming into work late once per week. Said Anderson, “I can do a lot of work from 9 P.M. to midnight using my wireless laptop and sending out e-mails. And I try to keep Saturday [open] all day to do things with the kids. I can [also] come in to work at 9:30 one morning, because I know I’ll stay late that night.”<sup>42</sup>

## Need to Achieve

Entrepreneurs work hard because they want to excel. Their strong competitive drive helps them enjoy the challenge of reaching difficult goals and promotes dedication to personal success. Entrepreneurship expert Amar Bhidé says successful entrepreneurs have “an almost maniacal level of ambition. Not just ambition to make a comfortable living, to make a few million dollars, but someone who wants to leave a significant mark on the world.”<sup>43</sup>

Maria de Lourdes Sobrino’s dream was to find success in the United States. A Mexican immigrant, Sobrino moved with her husband and daughter to Los Angeles, where she opened a travel business concentrating on travel between the United States and Mexico. But economic woes in Mexico ended demand for her services, and personal conflicts ended her marriage. Sobrino needed a new way to support herself, and an idea came to her: selling small cups of flavored gelatin, a common treat in Mexico that had not yet found its way to U.S. stores. Identifying retailers willing to take a chance on the new product required persistence. Store managers didn’t understand the product, so Sobrino honed the marketing strategy for her company, LuLu’s Dessert Factory. She identified Hispanic communities and visited independent stores. Finally, one allowed her to leave gelatin cups, with payment contingent on sales. When Sobrino returned to her spartan office, a message was waiting for her: “Please come back, Señora. Your gelatins are sold.”<sup>44</sup> That was the turning point for LuLu’s. When her product became popular in local stores, a food broker began to carry it, and Sobrino borrowed money to expand her facilities. Paying off the loans was difficult and took years, but today LuLu’s is a \$15 million company with 45 products offered in West Coast stores. And she is working with Wal-Mart to export her products to Mexico. Said Sobrino, “Wal-Mart is a very important company to do business with. It will be very exciting to have LuLu’s in Mexico.”<sup>45</sup>

### “They Said It”

“I’m not really interested in making money. That always comes as the result of success.”

—Steven Spielberg  
(b. 1946)  
American filmmaker

## Self-Confidence and Optimism

Entrepreneurs believe in their ability to succeed, and they instill their optimism in others. Often their optimism resembles fearlessness in the face of difficult odds. “People thought we were crazy to give up six-figure salaries at investment banking firms to reinvent the earmuff,” says Brian LeGette of himself and his business partner Ron Wilson. “They laughed at us.” LeGette and Wilson are the founders of 180s LLC, a Baltimore company that got its start with a fleece-covered ear warmer that wraps around the back of the wearer’s head. Despite not knowing anything about fabric or sewing, the two business school students put start-up expenses on their credit cards, built a prototype from items they bought at Wal-Mart, and went to work. Within a year, they were a successful start-up, selling their ear warmers for \$20 each. Soon they were raising capital to finance growth, hiring additional employees, and adding products. The firm’s innovative takes on ordinary products such as sunglasses, beach chairs, and gloves have made 180s into a \$50 million firm with 100 employees that sells its products in 18,000 retail stores in 40 countries. One of 180s’s latest products is the Quantum Vent, a jacket that allows runners to control their body temperature by pulling cords to lower a vent in the back that draws cool air through a mesh vent. Says LeGette, “We have an inexhaustible desire to question the things that most people think have already been answered. And that’s how we succeed in reinventing the wheel.”<sup>46</sup>

Sometimes, though, overconfidence can blind entrepreneurs and jeopardize their businesses. This is what happened at 180s. After burning through most of their investors’ cash, both LeGette and Wilson have left the company. New investors, who have put \$20 million into the company, have now turned the company over to a new CEO with much more experience in the apparel industry.<sup>47</sup>

## Tolerance for Failure

Entrepreneurs often succeed by sheer will and the ability to try and try again when others would give up. They also view setbacks and failures as learning experiences and are not easily discouraged or disappointed when things don’t go as planned. Howard Schultz, founder and CEO of Starbucks Coffee, said, “I took Starbucks into the magazine business with *Joe*—my idea. Nobody read it. Since *Joe* failed, I’ve kept a rack of issues in my office so everyone can see the magazine and realize we shouldn’t hide behind our mistakes and we should have the courage to keep pushing by not embracing the status quo. I keep that there as a memento. It was an embarrassing defeat, and we lost a fair amount of money, but sometimes you have to have the courage to fail.”<sup>48</sup>

## Creativity

Entrepreneurs typically conceive new ideas for goods and services, and they devise innovative ways to overcome difficult problems and situations. Kenny Kramm struggled in frustration and despair as he watched his infant daughter try to swallow bitter antiseizure medication four times a day. Often Kramm and his wife had to rush their daughter to the emergency room for treatment for the seizures because she had not been able to take enough of the medicine. Kramm improvised at first, giving his daughter mashed banana to help her stomach her medication. Then inspiration struck: He guessed that he wasn’t the only parent who had trouble feeding foul-tasting medications to his child. So Kramm concocted harmless additives in his parents’ suburban Washington, D.C., pharmacy, where he worked. The additives sweeten the taste and suppress bitterness without diluting the medicine. From a banana flavor, he branched out to other flavors for liquids, pills, and powders. Today, 30,000 pharmacies in the United

States, Canada, Australia, and New Zealand use FLAVORx to make medicine taste better.<sup>49</sup> And thanks to a contract with Walgreen's and other major drugstore chains, revenues grew from \$450,000 to \$7.8 million in just six years.<sup>50</sup> Is Kramm finished innovating? Not yet. His flavored pet medications are now used at more than 2,000 vet clinics.

Entrepreneurs like Kenny Kramm often achieve success by making creative improvements, rather than single-handedly revolutionizing an industry. Amar Bhidé's research identified a substantial amount of creativity among entrepreneurs "at the tactical level"—in other words, in the ways entrepreneurs built their businesses, more so than in the product itself.<sup>51</sup>

## Tolerance for Ambiguity

Entrepreneurs take in stride the uncertainties associated with launching a venture. Dealing with unexpected events is the norm for most entrepreneurs. Kate and Andy Spade didn't transform their business, Kate Spade, from a small handbag store in New York into a \$125 million business by taking unnecessary risks. Kate Spade said, "When we started to have a lot of success with the bags, people said we should expand into this or that category. We knew we had a window of opportunity, but the point was to get into a category that had a growth prospect, and not for growth to simply be the byproduct." In other words, Kate Spade was going to be very careful about which products her company chose to design and sell. Kate's husband, Andy, explains, saying, "If we go into a new category we always ask, 'Do we understand it? Can we design it well?'" And if they don't and can't, they won't design and make those products.<sup>52</sup>

Tolerance for ambiguity is different from the love of risk taking that many people associate with entrepreneurship. Successful entrepreneurship is a far cry from gambling because entrepreneurs look for strategies that they believe have a good chance of success, and they quickly make adjustments when a strategy isn't working. An important way entrepreneurs manage ambiguity is by staying close to customers so that they can adjust their offerings in keeping with customer desires. Amnon Landan, CEO of Mercury, a Mountain View, California-based company that helps banks use information technology to better serve their customers, was named Entrepreneur of the Year by *Forbes* magazine several years ago. Commenting on the importance of being close to customers, Landan says, "It is an overused expression, but the problem is that not too many people are actually exercising it. If you are wise enough to keep close and listen, then you learn about product direction, you learn about the tone of the [customer's] business and where it is moving and shifting." Accordingly, Landan spends 40 percent of his time each year visiting 50 key customers and expects his managers, staff, and especially engineers who design the company's products to spend time with customers, too. Says Landan, "If there is a big deal pending, usually I will not show up to try to close a deal, because you do not learn a lot when you do that. [I go] to our customers to understand how they use the products and what their needs are, and to create communication and trust."<sup>53</sup>

### "They Said It"

"Being an entrepreneur doesn't mean jump off a ledge and make a parachute on the way down."

—Fred Smith (b. 1944)  
Founder, FedEx

## Internal Locus of Control

Entrepreneurs believe that they control their own fates, which means they have an internal locus of control. You won't find entrepreneurs gazing into a crystal ball, calling psychic help lines, or looking for a four-leaf clover; they take personal responsibility for the success or failure of their actions rather than believing in luck or fate. They neither make excuses for their shortcomings nor blame others for their setbacks and failures. Chris Reeve is one entrepreneur who took a hard look at his abilities in light of the needs of his growing business. He took decisive action to get the company on the right track, as described in the "Hit & Miss" feature.





# HIT & MISS

## Chris Reeve Knives Hunts for a New CEO

Starting a company has been compared to raising a child—at some point, parents must let their grown child enter the world as an independent adult. Entrepreneurs face a similar challenge. Once a business has reached a certain point, its founders may find that their old roles no longer benefit the company, so they struggle to find and fill new ones. They may discover that they enjoy the changes or that they would prefer to move on. The founder of eBay ultimately brought in Meg Whitman to run the company. Yahoo!’s founders tapped Terry Semel. Chris Reeve, founder of Chris Reeve Knives, finds himself in a similar situation.

Thirty years ago, Chris Reeve established his company in Idaho. His high-end, handmade hunting knives are considered works of art—ranking among the best in the world. Celebrities such as Tom Selleck and Tom Cruise have made purchases. Chris Reeve knives appear in movies and other promotions. But Reeve is no longer sure he’s the best person to run his company. “A business like mine that makes something is often started by a very fine craftsman or engineer who is brilliant at what he does,” he explains. “That doesn’t necessarily translate into being able to run a business and manage and motivate people to do the work properly.”

So Reeve is hunting for a new chief. He wants to remain with the firm as its chief designer and inventor—which is how he started out. Several years ago, he tried hiring managers who were friends, or referred by friends—twice. Neither worked out. Reeve understands that the next candidate needs an outside perspective on the company. He also knows that the firm’s goals must be made clear. And while he knows he’s the best in the world at designing knives, he will have to hire someone who is much better than he is at managing the company—after all, that’s the whole point.

### Questions for Critical Thinking

1. What entrepreneurial traits does Chris Reeve seem to have?
2. Do you think it will be beneficial for Reeve to step aside as his firm’s chief executive? Why or why not?

**Sources:** Chris Reeve Knives Web site, accessed June 17, 2006, <http://www.chrisreeve.com>; Perri Capell, “When a Small Company Outgrows Its Founder,” *StartupJournal*, accessed June 17, 2006, <http://www.startupjournal.com>; “Hire People Better Than You,” *BusinessWeek*, accessed June 17, 2006, <http://www.businessweek.com>.

After reading this summary of typical personality traits, maybe you’re wondering if you have what it takes to become an entrepreneur. Take the test in Figure 6.6 to find out. Your results may help you determine whether you would succeed in starting your own company.

## STARTING A NEW VENTURE

The examples of entrepreneurs presented so far have introduced many ways to start a business. This section discusses the process of choosing an idea for a new venture and transforming the idea into a working business.

### Selecting a Business Idea

In choosing an idea for your business, the two most important considerations are (1) finding something you love to do and are good at doing and (2) determining whether your idea can satisfy a need in the marketplace. People willingly work hard doing something they love, and

### assessment check

1. What is meant by an entrepreneur’s vision?
2. Why is it important for an entrepreneur to have a high energy level and a strong need for achievement?
3. How do entrepreneurs generally feel about the possibility of failure?

### ENTREPRENEUR POTENTIAL ASSESSMENT FORM

Answer each of the following questions:

Yes No

- 1. Are you a first-generation American?
- 2. Were you an honor student?
- 3. Did you enjoy group functions in school—clubs, team sports, even double dates?
- 4. As a youngster, did you frequently prefer to spend time alone?
- 5. As a child, did you have a paper route, a lemonade stand, or some other small enterprise?
- 6. Were you a stubborn child?
- 7. Were you a cautious youngster, the last in the neighborhood to try diving off the high board?
- 8. Do you worry about what others think of you?
- 9. Are you in a rut, tired of the same routine every day?
- 10. Would you be willing to invest your savings—and risk losing all you invested—to go it alone?
- 11. If your new business should fail, would you get to work immediately on another?
- 12. Are you an optimist?

Add up your total score. A score of 20 or more points indicates strong entrepreneurial tendencies. A score between 0 and 19 points suggests some possibility for success as an entrepreneur. A score between 0 and -10 indicates little chance of successful entrepreneurship. A score below -11 indicates someone who's not the entrepreneurial type.

Answers: 1. Yes = 1, No = -1; 2. Yes = -4, No = 4; 3. Yes = -1, No = 1; 4. Yes = 1, No = -1; 5. Yes = 2, No = -2; 6. Yes = 1, No = -1; 7. Yes = -4, No = 4 (if you were a very daring child, add another 4 points); 8. Yes = -1, No = 1; 9. Yes = 2, No = -2; 10. Yes = 2, No = -2; 11. Yes = 4, No = -4; 12. Yes = 2, No = -2.

**Source:** Copyright Northwestern Mutual Life Insurance Company. Reprinted with permission.

the experience will bring personal fulfillment. The old adages “Do what makes you happy” and “To thine own self be true” are the best guidelines for deciding on a business idea.

Success also depends on customers, so would-be entrepreneurs must also be sure that the idea they choose has interest in the marketplace. The most successful entrepreneurs tend to operate in industries where a great deal of change is taking place and in which customers have difficulty pinpointing their precise needs. These industries, including advanced technology and consulting, allow entrepreneurs to capitalize on their strengths, such as creativity, hard work, and tolerance of ambiguity, to build customer relationships. Nevertheless, examples of outstanding entrepreneurial success occur in every industry, such as Firefly Mobile, which sells

simple five-button mobile phones (Call Mom, Call Dad, Phone Numbers, Hello, and Good-bye) for young children that come with 30 minutes of talking time and let parents restrict incoming and outgoing phone numbers.<sup>54</sup> The following guidelines may help you select an idea that represents a good entrepreneurial opportunity:

- List your interests and abilities. Include your values and beliefs, your goals and dreams, things you like and dislike doing, and your job experiences.
- Make another list of the types of businesses that match your interests and abilities.
- Read newspapers and business and consumer magazines to learn about demographic and economic trends that identify future needs for products that no one yet offers.
- Carefully evaluate existing goods and services, looking for ways you can improve them.
- Decide on a business that matches what you want and offers profit potential.
- Conduct marketing research to determine whether your business idea will attract enough customers to earn a profit.
- Learn as much as you can about the industry in which your new venture will operate, your merchandise or service, and your competitors. Read surveys that project growth in various industries.

Like Kenny Kramm, whose medication-flavoring business was described earlier, many entrepreneurs start businesses to solve problems that they experienced either at work or in their personal lives. When Robert Byerley's \$100 dress shirt was ruined at the cleaners, he just wanted his shirt replaced. But when they didn't even apologize, he got the idea for a new business, a premium dry cleaner that stands behind its services. But before he started this business, he did his thinking and his research first. Unable to sleep one night, he created a list of features for the business: "a bank-like drive-through area with curbside delivery; a computerized system that would track clothes all the way through the process and read cleaning preferences off a small bar code; and state-of-the-art, environmentally friendly cleaning processes." Then he spent a week in the library, where he learned that the \$16-billion-a-year business is dominated by mom-and-pop businesses. At the Better Business Bureau, he discovered the most common complaint about dry cleaners: not standing behind what they did. Finally, he spent \$15,000 to conduct focus groups, asking potential customers to comment on his store's name, features, and advertising and a sample of clothes, which he had taken to the best dry cleaner in town. Today, Byerley's Dallas-based dry cleaning business, Bibbentuckers, has three stores, each of which averages \$1 million a year in revenues, four times that of the average dry cleaning store.<sup>55</sup>

While Byerley's Bibbentuckers dry cleaning stores didn't invent a new product or process, many entrepreneurs who start new businesses do. When that happens, the inventor-entrepreneur needs to protect the rights to his or her invention by securing a patent. The U.S. Patent and Trademark Office's Web site (<http://www.uspto.gov>) provides information about this process, along with forms to apply for a patent. Inventors can also apply for a patent online.

**Buying an Existing Business** Some entrepreneurs prefer to buy established businesses rather than assume the risks of starting new ones. Buying an existing business brings many advantages: Employees already in place serve established customers and deal with familiar suppliers, the good or service is known in the marketplace, and the necessary permits and licenses have already been secured. Getting financing for an existing business also is easier than it is for most start-ups. Some sellers may even help the buyers by providing financing and offering to serve as consultants.

To find businesses for sale, contact your local chamber of commerce, brokers who sell businesses, and professionals such as lawyers, accountants, and insurance agents. It is important to analyze the performance of businesses under consideration. Most people want to buy a



healthy business so that they can build on its success. When Debra Fine decided to start a business making long-lasting, high-end children's toys to be sold at upscale stores, she bought 40-year-old Small World Toys in Culver City, California, which made high-quality wooden castles and dollhouses. Small World Toys became a division in her new business, Small World Kids. In her first year of business, she increased revenues 13 percent to \$29.5 million by selling toys at high-end retailers such as Nordstrom, Neiman Marcus, and Learning Express.<sup>56</sup>

In contrast, turnaround entrepreneurs enjoy the challenge of buying unprofitable firms and making enough improvement in their operations to generate new profits. Hancock & Moore, a leather furniture manufacturer in Hickory, North Carolina, chose this route when it purchased Council Craftsmen, a bankrupt furniture manufacturer. Success with a turnaround strategy requires that the entrepreneur have definite and practical ideas about how to operate the business more profitably. After investing \$5.1 million in Council Craftsmen for new production equipment that would raise quality and lower costs, Hancock & Moore focused Council Craftsmen's business from three lines of furniture—office, 18th-century reproductions, and high-end—to just one, custom-made furniture.<sup>57</sup>

**Buying a Franchise** Like buying an established business, buying a franchise offers a less risky way to begin a business than starting an entirely new firm. But as the previous chapter pointed out, franchising still involves risks. You must do your homework, carefully analyzing the franchisor's fees and capabilities for delivering the support it promises. Energetic preparation helps ensure that your business will earn a profit and grow.

## Creating a Business Plan

Traditionally, most entrepreneurs launched their ventures without creating formal business plans. Although planning is an integral part of managing in the world of 21st-century business, entrepreneurs typically seize opportunities as they arise and change course as necessary. Flexibility seems to be the key to business start-ups, especially in rapidly changing markets. Forty-seven percent of the most recent *Inc.* 500 CEOs did not create a formal written plan before launching their companies.<sup>58</sup> Entrepreneurial researcher Amar Bhidé attributes that surprising fact to the types of businesses that today's entrepreneurs start. When businesspeople do not need a large amount of cash to start their businesses, they often do not need financing from outside sources—which usually require plans. Also, the rapid pace of change in some industries reduces the benefit of writing a plan.<sup>59</sup> Still, when an entrepreneur needs additional funds to start or grow a business, a business plan is indispensable.

Although the planning process for entrepreneurs differs from a major company's planning function, today's entrepreneurs are advised to construct business plans following the guidelines presented in Chapter 5 and Appendix C. Careful planning helps the entrepreneur prepare enough resources and stay focused on key objectives, and it provides an important tool for convincing potential investors and employees that the enterprise has the ingredients for success. Entrepreneurial business plans vary depending on the type of start-up, but the basic elements of such a plan—stating company goals, outlining sales and marketing strategies, and determining financial needs and sources of funds—apply to all types of ventures. The Internet also offers a variety of resources for creating business plans. Table 6.1 lists some of these online resources.

## Finding Financing

A key issue in any business plan is financing. How much money will you need to start your business and where will you get it? Requirements for **seed capital**, funds used to launch a

### “They Said It”

“Inspiring visions rarely include numbers.”

—Thomas J. Peters

(b. 1942)

American business writer

**seed capital** initial funding needed to launch a new venture.

## Online Resources for Preparing a Business Plan

AllBusiness.com <a href="http://www.allbusiness.com">http://www.allbusiness.com</a>	The "Business Advice" page provides links to examples, templates, and tips for writing a plan.
Inc. <a href="http://www.inc.com">http://www.inc.com</a>	Under "Departments," click "How-To-Guides" and then "Writing a Business Plan," which links to 150+ articles about how to write a business plan.
Kauffman eVenturing <a href="http://www.eventuring.org">http://www.eventuring.org</a>	The "Explore Topics" section has links to information and resources for researching and writing a plan, as well as presenting it to lenders or investors.
MoreBusiness.com <a href="http://www.morebusiness.com">http://www.morebusiness.com</a>	To see a sample plan, select "Business & Marketing Plans" from the list of templates.

company, depend on the nature of your business and the type of facilities and equipment you need. On average, CEOs of the fastest-growing small businesses raised \$1.5 million in seed capital to start their businesses. This average is highly skewed, though, by a few entrepreneurs who raised tens of millions of dollars for their business. The median amount of seed money, \$50,000, was significantly below the average of \$1.5 million. In fact, 54 percent of entrepreneurs started their businesses with \$50,000 or less.<sup>60</sup>

Most entrepreneurs rely on personal savings, advances on credit cards, and money from partners, family members, and friends to fund their start-ups. When Ben David started his Nurses Now! temporary agency, to provide nurses to local hospitals in the Baltimore, Maryland, area, he used every dollar he had to start the business. David took out a second mortgage on his house, borrowed from his 401(k) retirement account, and maxed out all of his credit cards. Today, he's well on his way to paying off those loans as his business, now in its third year, will have revenues of \$5 million this year.<sup>61</sup>

**Debt Financing** When entrepreneurs like Ben David use **debt financing**, they borrow money that they must repay. Loans from banks, finance companies, credit card companies, and family and friends are all sources of debt financing. Although many entrepreneurs charge business expenses to personal credit cards because they are relatively easy to obtain, high interest rates make this source of funding expensive. Annual interest charges on a credit card can run as high as 20 percent, while rates for a home equity loan (borrowing against the value of a home) currently run between 6 and 8 percent. In exchange for a lower interest rate, borrowers with a home equity loan pledge the value of their home, so a borrower who does not repay the loan risks losing the home.

When a business fails and cannot repay its loans, the owner must often declare bankruptcy. Regardless of legal

**debt financing** borrowed funds that entrepreneurs must repay.

Roberto Milk found a way to serve society through his company, Novica, which sells handcrafted art from artisans around the world. To obtain the funds to start his business, Milk turned to venture capital firms that invested millions of dollars. His buying teams travel the world in search of unique pieces. And when an item is sold, Novica guarantees artists that they will be paid at least 60 percent of the retail price.



AP PHOTO/RODRIGUE NGOWI

## SMALL BUSINESS AND BANKRUPTCY—IS THERE AN ETHICAL RESPONSIBILITY?

*When a small business goes bankrupt, its legal obligations to pay creditors are significantly reduced. Most creditors expect to receive pennies on the dollar. But is there an ethical responsibility to reimburse creditors?*

The National Hockey League's Pittsburgh Penguins once found itself in this situation. The team suffered from poor performance and declining attendance at its games, and its debt totaled \$120 million. So the Penguins finally declared bankruptcy. But in an unusual move—including a comeback from retirement by star player Mario Lemieux—the team made a commitment to pay off 100 percent of its debts.

Does a small business have an ethical responsibility to repay debts, even if it does not have the legal responsibility under bankruptcy protection?

### PRO

1. It is more ethical to pay off a debt—even if it takes many months or years—than to negotiate repayments of pennies on the dollar.

2. When a firm goes bankrupt, employees and contract workers, as well as vendors and suppliers, are often hit the hardest. So every effort should be made to compensate them.

### CON

1. Bankruptcy law is designed to help companies cut their losses, pay creditors a reasonable amount, and move on to future success. Tying them down with past debt may cost future jobs and interrupt service to new customers.
2. There is no legal requirement to repay the debt, so there should not be an ethical one.

### SUMMARY

With the help of Lemieux—who agreed to restructure his salary and who found a group of investors

willing to buy the team and keep it in Pittsburgh—the Penguins paid their debts. Even during the NHL strike, which meant no revenues, the team continued to make payments. "That's just the way we do business," explained team president Ken Sawyer. "There's absolutely a sense of pride."

**Sources:** Helen Huntley, "Bankruptcy Law Ensnarers Businesses," *St. Petersburg (FL) Times*, accessed June 17, 2006, <http://www.sptimes.com>; Judy Newman, "When Companies Go Bankrupt, Employees and Freelancers Often Hit Hardest," *Wisconsin State Journal*, accessed June 17, 2006, <http://www.madison.com/wsji>; "Penguins Paying Creditors 100 Percent in Rare Bankruptcy Result," Associated Press, August 20, 2005, <http://www.ap.org>.

solving  
an

**ETHICAL**

controversy



### "They Said It"

"The only thing tainted about money is 'taint mine' or 'taint enough'."

—Anonymous

requirements, some entrepreneurs who have been forced to declare bankruptcy still feel obligated to repay their debts. The "Solving an Ethical Controversy" feature debates the ethics of repaying creditors.

Many banks turn down requests for loans to fund start-ups, fearful of the high risk such ventures entail. In fact, Ben David, who relied on credit cards and a second mortgage to start Nurses Now!, said, "Anyone who thinks they can draw up a business plan and walk into a bank and ask for money is crazy. Banks aren't going to give you money for just an idea. You need a track record, and you need backers."<sup>62</sup> Only a small percentage of start-ups raise seed capital through bank loans, although some new firms can get SBA-backed loans, as discussed in Chapter 5.

Applying for a bank loan requires careful preparation. Bank loan officers want to see a business plan and will evaluate the entrepreneur's credit history. Because a start-up has not yet established a business credit history, banks often base lending decisions on evaluations of entrepreneurs' personal credit histories. Banks are more willing to make loans to entrepreneurs who have been in business for a while, show a profit on rising revenues, and need funds to finance expansion. Some entrepreneurs have found that local community banks are more interested in their loan applications than are the major national banks.



**Equity Financing** To secure **equity financing**, entrepreneurs exchange a share of ownership in their company for money supplied by one or more investors. Entrepreneurs invest their own money along with funds supplied by other people and firms that become co-owners of the start-ups. An entrepreneur does not have to repay equity funds. Rather, the investors share in the success of the business. Sources of equity financing include family and friends, business partners, venture capital firms, and private investors.

Teaming up with a partner who has funds to invest may benefit an entrepreneur with a good idea and skills but little or no money. Investors may also have business experience, which they will be eager to share because the company's prosperity will benefit them. Like borrowing, however, equity financing has its drawbacks. One is that investment partners may not agree on the future direction of the business, and in the case of partnerships, if they cannot resolve disputes, one partner may have to buy out the other to keep operating. When Joe Strazza founded WinMill Software in New York City, he reduced his ownership stake in the company from 40 to 20 percent by securing \$3 million in equity financing from 100 investors, most of whom were family and friends. These funds allowed the company to grow from one office and three workers to four offices in four cities and 180 workers. When the company was doing well, his investors were happy, but when business dropped from \$24 million in revenues to \$7 million, numerous investors asked to cash out, but they could not because the company lacked funds. Moreover, other investors opposed management decisions—for example, expanding into other lines of business such as installing wireless networks for cities and hospitals. Strazza said, “People say they believe in you and like you. But then when you're down, you learn it was all about the money. That's a very tough lesson to learn as an entrepreneur. You feel like you're losing your friends.”<sup>63</sup>

**Venture capitalists** are business organizations or groups of private individuals that invest in new and growing firms. These investors expect high rates of return, typically more than 30 percent, within short time periods of five years or fewer. Prior to the widespread failures of many dot-coms in the early years of the 21st century, a sizable portion of venture capital flowed into start-up Internet firms. Today, most of the \$20 billion that venture capitalists invest annually flows to a very limited number of businesses. Less than one-tenth of firms receiving funds from venture capitalists are start-ups, and most of the remainder are high-tech firms.<sup>64</sup>

**Angel investors**, wealthy individuals who invest money directly in new ventures in exchange for equity, are a larger source of investment capital for start-up firms. In contrast to venture capitalists, angels focus primarily on new ventures. Many angel investors are successful entrepreneurs who want to help aspiring business owners through the familiar difficulties of launching their businesses. Angel investors back a wide variety of new ventures. Some invest exclusively in certain industries, others invest only in start-ups with socially responsible missions, and still others prefer to back only women entrepreneurs. The “Business Etiquette” feature provides tips on a key strategy that entrepreneurs use to interest investors in their ideas: the business dinner.

Because most entrepreneurs have trouble finding wealthy private investors, angel networks form to match business angels with start-ups in need of capital. As you learned in Chapter 5, the Small Business Administration's Active Capital provides online listings to connect would-be angels with small businesses seeking financing. Similar networks try to expand the old-boy network of venture capitalists to new investors and entrepreneurs as well. Venture capitalists that focus on women include Isabella Capital (<http://www.fundisabella.com>) and Springboard Enterprises (<http://www.springboardenterprises.org>). Those interested in minority-owned business include the U.S. Hispanic Chamber of Commerce (<http://www.usfcc.com>).

**equity financing** funds invested in new ventures in exchange for part ownership.

**venture capitalists** business firms or groups of individuals that invest in new and growing firms in exchange for an ownership share.

**angel investors** wealthy individuals who invest directly in a new venture in exchange for an equity stake.

### assessment check

1. What are the two most important considerations in choosing an idea for a new business?
2. What is the purpose of a patent?
3. What is seed capital?

## (b)usiness (e)tiquette

### Dining for Dollars

Entrepreneurs need money to fund their businesses. Many start with their own savings, but they quickly reach a point at which outside financing is necessary to survive and grow. So being successful means becoming skilled in attracting potential investors. Often the initial courtship occurs over a business meal, which can be a good way to get to know each other in a relaxed setting. But the dinner requires some savvy etiquette. To unravel the mystery of dining for dollars, follow these hints from the experts.

- Before setting up a dinner meeting, think through the mission of the meal. Is it simply to introduce yourself and your business? Are you ready to discuss specific business details? Write down your objectives.
- If possible, choose a restaurant you already know, where you trust the food and the staff. You'll want someplace that is relatively quiet so that you can talk. If you are paying a visit to potential investors outside your own town, research the restaurants ahead of time. You can ask your guests where they would like to eat—but make it clear that you will be the host.
- Arrive at the restaurant ten to fifteen minutes before the reservation time. Let the restaurant host know you are there. Wait in the lobby or near the door for your guests. If the staff prefers to seat you at a table, do not

order drinks or food until your guests arrive.

- Greet your guests upon arrival with a smile and a firm handshake. Keep business papers off the table, and turn off your cell phone. Enjoy dinner and follow proper dining etiquette. Limit your alcohol intake, and don't smoke.
- Don't skip dessert and coffee. Key business discussions and decisions often take place during this part of the meal. It is usually acceptable to refer to any documents you may need for discussion at this point.
- When the check arrives, payment is your responsibility. Do so quickly and quietly. Alternatively, if you arrive early enough, you can give the wait staff your credit card so that it is clear you will be paying the bill.
- Escort your guests to the door, shake hands, and thank them for taking the time to join you. Later, you may want to jot down some meeting notes. Send a written note to your guests within a day or two, thanking them again for their time and consideration.

**Sources:** Naomi Torre Poulson, "Hosting a Formal Dinner," AskMen.com, accessed June 17, 2006, <http://www.askmen.com>; Scott Reeves, "Hosting a Business Dinner," *Forbes*, accessed June 17, 2006, <http://www.forbes.com>; Lydia Ramsey, "Sealing the Deal over the Business Meal," *Consulting to Management*, accessed June 17, 2006, <http://www.c2m.com>.

## INTRAPRENEURSHIP

Established companies try to retain the entrepreneurial spirit by encouraging **intrapreneurship**, the process of promoting innovation within their organizational structures. Today's fast-changing business climate compels established firms to innovate continually to maintain their competitive advantages.

At Cambridge Consultants, a 250-person consulting firm in Boston that helps clients create products for five different industries, the entire company is designed around intrapreneurship. Each year, the company uses 10 percent of its revenues to help employees start and run new businesses. All of the firm's five divisions then use that money for a spin-off budget that employees use to develop initial new product ideas. Roughly 15 percent of initial ideas are then approved for more funds, which are used for marketing research and viability—in other words, to determine the likelihood of selling the new products. Finally, the company's top managers review the research studies and typically select one idea per year that is then spun off into its own new product division. Over the last 45 years, Cambridge has launched an average of one new company per year with an average investment of \$1 million. When those new businesses are successful, employees and the companies share the profits. But if they fail, employees get their old jobs back, and the company incurs the loss.<sup>65</sup>

Established companies such as 3M support intrapreneurial activity in varied ways. 3M allows its researchers to spend 15 percent of their time working on their own ideas without approval from management. In addition to allowing time for traditional product development, 3M implements two intrapreneurial approaches: skunkworks and pacing programs. A **skunkworks** project is initiated by an employee who conceives an idea and then recruits resources from within 3M to turn it into a commercial product. **Pacing programs** are company-initiated projects that focus on a few products and

technologies in which 3M sees potential for rapid marketplace winners. The company provides financing, equipment, and people to support such pacing projects.

Entrepreneurial environments created within companies can help firms retain valuable employees who might otherwise leave to start their own businesses. The Walt Disney Company is an icon of creativity, and many of its creative people leave to start businesses on their own. Among them is Jake Winebaum, formerly president of Walt Disney Magazine Publishing and intrapreneurial founder of Disney Online. While at Disney, he loved the climate of innovation in which he ran Disney.com, ABCNews.com, ESPN.com, and Go.com. He found the process of starting these operations inside Disney very similar to the process of starting a new company. In fact, the experience reminded him how much he loved being an entrepreneur, and he left to start a business incubator called eCompanies, with the goal of helping businesses move from ideas to operating businesses within a few months. Winebaum credits Disney with helping him learn how to identify business ideas with good potential.<sup>66</sup>

### **intrapreneurship**

process of promoting innovation within the structure of an existing organization.

### **assessment check**

1. Why would large companies support intrapreneurship?
2. What is a skunkworks?

## **WHAT'S AHEAD**

The next chapter turns to a realm of business in which many entrepreneurs have been active during the past decade: e-business, or business use of the Internet. The chapter describes the technology behind electronic business. It introduces the challenges and opportunities available to entrepreneurs and other businesspeople who want to communicate with and sell to customers on the Internet. Not many years ago, Internet technology was a novelty except among high-tech firms and tech-savvy individuals. Today it is an integral factor in starting and growing a business.



### **Summary of Learning Goals**

#### **1 Define the term *entrepreneur* and distinguish among entrepreneurs, small-business owners, and managers.**

Unlike many small-business owners, entrepreneurs typically own and run their businesses with the goal of building significant firms that create wealth and add jobs. Entrepreneurs are visionaries. They identify opportunities and take the initiative to gather the resources they need to start their businesses quickly. Both managers and entrepreneurs use the resources of their companies to achieve the goals of those organizations.

#### **Assessment Check Answers**

##### **1.1 What tools do entrepreneurs use to create a new business?**

Entrepreneurs combine their ideas and drive with money, employees, and other resources to create a business that fills a market need.

##### **1.2 How do entrepreneurs differ from managers?**

Managers direct the efforts of others to achieve an organization's goals. The drive and impatience that entrepreneurs have to make their companies successful often hurts their ability to manage.

##### **2 Identify four different types of entrepreneurs.**

The four categories of entrepreneurs are classic entrepreneurs, serial entrepreneurs, intrapreneurs, and change agents. A classic entrepreneur identifies a business opportunity and allocates available resources to tap that market. A serial entrepreneur starts one business, runs it, and then starts and runs additional businesses in succession. An intrapreneur is an employee who develops a new idea or product within an organizational position. A change agent is a manager who revitalizes an existing firm to make it a competitive success.



## Assessment Check Answers

### 2.1 Why do companies encourage intrapreneurs?

Established companies need intrapreneurs to help develop new products, ideas, and commercial ventures.

### 2.2 What do intrapreneurs and change agents have in common?

Like intrapreneurs, change agents turn around and revitalize established firms to keep them competitive in today's marketplace.

### 3 Explain why people choose to become entrepreneurs.

People choose this kind of career for many different reasons. Reasons most frequently cited include desires to be one's own boss, to achieve financial success, to gain job security, and to improve one's quality of life.

## Assessment Check Answers

### 3.1 Are entrepreneurs more likely than employees to achieve financial success?

While only one in five American workers is self-employed, more than two-thirds of all millionaires are self-employed. Consequently, if you run your own business, you're more likely to achieve financial success.

### 3.2 What factors affect the entrepreneur's job security?

An entrepreneur's job security depends on the decisions of customers and investors and on the cooperation and commitment of the entrepreneur's own employees.

### 4 Discuss conditions that encourage opportunities for entrepreneurs.

A favorable public perception, availability of financing, the falling cost and widespread availability of information technology, globalization, entrepreneurship education, and changing demographic and economic trends all contribute to a fertile environment for people to start new ventures.

## Assessment Check Answers

### 4.1 To what extent is entrepreneurship possible in different countries, and what opportunities does globalization create for today's entrepreneurs?

More than 9 percent of adults worldwide are starting or managing a new business. As for globalization opportunities, entrepreneurs market their products abroad and hire international talent. Among the fastest-

growing small U.S. companies, almost two of every five have international sales.

### 4.2 Identify the educational factors that help expand current opportunities for entrepreneurs.

More than 100 U.S. universities offer majors in entrepreneurship, another 73 offer an entrepreneurship emphasis, and hundreds more offer courses in how to start a business. Also, organizations such as the Kauffman Center for Entrepreneurial Leadership, Entreprep, and Students in Free Enterprise encourage and teach entrepreneurship.

### 4.3 Describe current demographic trends that suggest new goods and services for entrepreneurial businesses.

The aging of the U.S. population, the emergence of Hispanics as the nation's largest ethnic group, and the growth of two-income families are creating opportunities for entrepreneurs to market new goods and services.

### 5 Identify personality traits that typically characterize successful entrepreneurs.

Successful entrepreneurs share several typical traits, including vision, high energy levels, the need to achieve, self-confidence and optimism, tolerance for failure, creativity, tolerance for ambiguity, and an internal locus of control.

## Assessment Check Answers

### 5.1 What is meant by an entrepreneur's vision?

Entrepreneurs begin with a vision, an overall idea for how to make their business idea a success, and then passionately pursue it.

### 5.2 Why is it important for an entrepreneur to have a high energy level and a strong need for achievement?

Because start-up companies typically have a small staff and struggle to raise enough capital, the entrepreneur has to make up the difference by working long hours. A strong need for achievement helps entrepreneurs enjoy the challenge of reaching difficult goals and promotes dedication to personal success.

### 5.3 How do entrepreneurs generally feel about the possibility of failure?

They view failure as a learning experience and are not easily discouraged or disappointed when things don't go as planned.

## 6 Summarize the process of starting a new venture.

Entrepreneurs must select an idea for their business, develop a business plan, obtain financing, and organize the resources they need to operate their start-ups.

### Assessment Check Answers

#### 6.1 What are the two most important considerations in choosing an idea for a new business?

Two important considerations are finding something you love to do and are good at doing and determining whether your idea can satisfy a need in the marketplace.

#### 6.2 What is the purpose of a patent?

A patent protects the rights to a new invention, process, or product.

#### 6.3 What is seed capital?

Seed capital is the money that is used to start a company.

## 7 Explain how organizations promote intrapreneurship.

Organizations encourage intrapreneurial activity within the company in a variety of ways, including hiring practices, dedicated programs such as skunkworks, access to resources, and wide latitude to innovate within established firms.

### Assessment Check Answers

#### 7.1 Why would large companies support intrapreneurship?

Large firms support intrapreneurship to retain an entrepreneurial spirit and to promote innovation and change.

#### 7.2 What is a skunkworks?

A skunkworks project is initiated by an employee who conceives an idea and then recruits resources from within the company to turn that idea into a commercial product.

## Business Terms You Need to Know

entrepreneur 184

classic entrepreneur 185

serial entrepreneur 186

intrapreneur 186

change agent 186

lifestyle entrepreneur 190

seed capital 202

debt financing 203

equity financing 205

venture capitalist 205

angel investor 205

intrapreneurship 206

## Other Important Business Terms

skunkworks 206

pacing programs 206

## Review Questions

1. What are the similarities and differences among entrepreneurs, small-business owners, and managers? What tools do entrepreneurs use to create a new business?
2. Why do companies encourage intrapreneurs? What do intrapreneurs and change agents have in common?
3. Identify the four categories of entrepreneurs. How are they different from each other?
4. What are the four major reasons for becoming an entrepreneur? Why do you think entrepreneurs are more likely than employees to achieve financial success? What factors affect the entrepreneur's job security?
5. How have globalization and information technology created new opportunities for entrepreneurs? Describe current demographic trends that suggest new goods and services for entrepreneurial businesses.

6. Identify the eight characteristics that are attributed to successful entrepreneurs. Which trait or traits do you believe are the most important for success? Why? Why is it important for an entrepreneur to have a high energy level and a strong need for achievement? How do entrepreneurs generally feel about the possibility of failure?
7. What are the benefits and risks involved in buying an existing business or a franchise?
8. Why is creating a business plan an important step for an entrepreneur?
9. Describe the different types of financing that entrepreneurs may seek for their businesses. What are the risks and benefits involved with each?
10. Why do most entrepreneurs rely on personal savings, credit cards, and money from family and friends? Why is it difficult to obtain bank financing?
11. What is intrapreneurship? How does it differ from entrepreneurship?

### Projects and Teamwork Applications

1. Think of an entrepreneur whom you admire or choose one of the following: Bill Gates of Microsoft, Jeff Bezos of Amazon.com, or Oprah Winfrey of Harpo Productions. Explain why you admire this entrepreneur, including ways in which the person has contributed to his or her industry as well as to the economy.
2. Current demographic and economic trends support entrepreneurs who create new businesses. One of these trends is the willingness of Americans to spend more money on certain goods and services, such as pet care. On your own or with a classmate, brainstorm a trend that may be a good idea for a new business. Write one or two paragraphs describing the trend and how it could be applied to a business.
3. Review the eight characteristics of successful entrepreneurs. Which characteristics do you possess? Do you think you would be a good entrepreneur? Why? Write a paragraph or two listing your strengths.
4. Many entrepreneurs are motivated by working in an area they love. Think about something you love to do that you believe could be turned into a business. What aspect of the activity would actually be turned into a business? For example, if you love to play golf or shop at vintage clothing stores for 1970s-style attire, how would you shape this interest into a business?

### Case 6.1

#### Genuine Scooters

Philip McCaleb has always loved riding scooters. When he worked in Europe as a sales manager for a U.S. company, he rode one to his job. It was cheap, maneuverable, and fun. Back home in Chicago a few years later, he began tinkering with the rusty parts of vintage scooters in his basement. He hunted down parts and accessories for old Vespa scooters and painstakingly restored them to life. Before he knew it, he was running a small restoration business called Scooter-

works. Although there were a few diehard fans, the two-wheeled vehicles were slow to catch on in the United States. So McCaleb started a Vespa fan club and Internet message board. Today, with more and more consumers taking an interest in vintage scooters, Scooterworks is the largest importer of parts and accessories for the two-wheelers in the United States.

But Scooterworks is now a secondary business for McCaleb. As gas prices have soared, so has interest



in alternative forms of travel. Scooters are cheaper than motorcycles, and they don't require a special license. They get anywhere from 50 to 110 miles per gallon, and they can keep up with the flow of general traffic on the road. Consumers who once made fun of scooters—or viewed them as toys—are now taking a second look. Banking on this new interest, McCaleb launched a second company called Genuine Scooter.

In its first three years, Genuine Scooter's popular Stella scooter—designed by McCaleb—has rolled down thousands of driveways. Priced at \$2,895, it can reach 55 miles per hour and averages 90 miles per gallon of gas. Customers include urban dwellers, commuters, and even retirees who just want to head into town for lunch or a bag of groceries. But McCaleb emphasizes the fun factor. "A large portion of my market is delayed adolescents, or those looking to return to adolescence," he says with a smile.

As his firm rapidly grows bigger and more successful, McCaleb has a clear understanding of its position in the marketplace. "I always want to grow and compete," he explains, "but there is no way we can compete, or want to compete, with the Hondas or the Yamahas. We carefully look to compete on a scale that focuses on niche, on service, and quality." McCaleb also understands his own role as an entrepreneur. He loves to come up with new ideas, design things, and put them together. But he is not a businessperson. So he hired a consultant to help draw up a formal business plan to achieve the kind of expansion

he envisions for Genuine Scooter. "I crave the opportunity to put concepts on the street," says McCaleb. "I'm a horrible bureaucrat and lousy operations guy." With this strategy, McCaleb can focus on what he does best—coming up with ideas for new products and new markets. Recently, Genuine Scooters launched a sidecar that attaches to its scooter and plans to offer a scooter trailer soon. Meanwhile, McCaleb is working on the next generation of scooters, which will be larger and faster. He hopes to win over more consumers who want the ease and flexibility of squeezing through traffic and parking in tight spaces—and who don't mind a little wind in their hair.

### Questions for Critical Thinking

1. What conditions do you think opened the door of opportunity for Philip McCaleb's two companies?
2. What type of entrepreneur is Philip McCaleb? What personality traits does he have that could contribute to his success?

**Sources:** Genuine Scooter Web site, accessed June 17, 2006, <http://www.genuine-scooters.com>; Tara Siegel Bernard, "Scooters' Popularity Offers a Chance for Growth," *Wall Street Journal*, accessed June 17, 2006, <http://online.wsj.com>; Joe Kafka, "High Prices Pumping Up Scooter Sales," (*Fort Wayne, TX*) *Journal Gazette*, accessed June 17, 2006, <http://www.fortwayne.com/mld/journalgazette>; John Schmeltzer, "Sales of Scooters Get in the Fast Lane," *Chicago Tribune*, accessed June 17, 2006, <http://www.chicagotribune.com>.

VIDEO

### Case 6.2

### Culver's: Great Food from a Good Business

This video case appears on page 614. A recently filmed video, designed to expand and highlight the written case, is available for class use by instructors.