

Unit 1

Entrepreneurship and You

Profile of an Entrepreneur

Mary Kay Ash, 1915–2001

Mary Kay Ash was an extraordinary woman who possessed an uncanny business ability. Her influence on the cosmetics industry will long be remembered. Known for rewarding sales success with pink cars, Mary Kay founded Mary Kay Cosmetics and grew it into one of the largest and most successful beauty products corporations in the country.

Mary Kay's actual date of birth is something of a mystery. She is rumored to have said, "A woman who will tell her age will tell anything." When asked her age, she would often respond, "How much do you weigh?" Most records place her year of birth as 1915, in Hot Wells, Texas. She died in 2001.

Life was not kind to Mary Kay during her early years. Born the youngest child in the family, she soon discovered the realities of being poor when her father became sick. With her mother working long days, she assumed responsibility for housework and caring for an invalid father stricken with tuberculosis. She was seven.

"You can do it, honey," her mother constantly assured her. Mary Kay developed a high level of confidence in her own abilities. This personality trait later proved invaluable as she built her dream company.

In school Mary Kay was very bright and extremely competitive. She excelled in front of a crowd as a public speaker and debater. Being bright was not enough, however, for Mary Kay to pursue her dream of being a doctor. Financial hardships prevented her family from sending her to college. Instead, she followed a more traditional route, getting married and starting a family. To help the family budget, she took a job selling books door-to-door.

By the age of 27, however, she was enrolled at the University of Houston, studying medicine. Her medical studies were cut short when her husband came home from World War II and asked for a divorce.

With three children to support, Mary Kay went to work selling Stanley Home Products. Regarding the Stanley experience, she was later quoted in a magazine article as saying, "I worked under a branch manager who promoted at his discretion, and I began to see that my whole world was hemmed in by a man who didn't want me to succeed."

Leaving Stanley Home Products as the top sales producer, Mary Kay went to work for World Gift Company in the early fifties. Through hard work and successful selling, she was eventually appointed to the board of directors.



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Mary Kay soon experienced the “glass ceiling,” the invisible barrier to promotion sometimes encountered by women and minorities. In the early sixties, she quit to pursue early retirement.

Mary Kay decided to spare other women the ordeal she had experienced by writing a sales book. It was to be a guide for women in the workplace. Once she started writing, it occurred to her that she had created the perfect plan for a successful business. With the business plan in hand, she quit writing and started doing. She was on her way.

The first step to becoming a successful businesswoman was a good product. She decided on skin care products because Avon and other companies were primarily selling cosmetics. By not competing directly with these well-established companies, Mary Kay thought her business had an excellent chance for success.

Mary Kay Ash started the company when she discovered a cream that softened the skin and made it look good. It was a concoction made by a local hide tanner, and she had been using it herself for almost ten years. Mary Kay took her life savings of \$5,000 and bought the formula.

Unfortunately its smell left something to be desired. After experimentation and remixing the formula, she developed a cream that smelled good. She

hired a local manufacturer with instructions to create a line of skin care products based on the original formula.

In 1963, with her son’s help, Mary Kay Cosmetics was born. The small direct-sale company began operating out of an 800-square-foot storefront in Dallas, Texas. Sales for the first three months of operation totaled approximately \$34,000. First-year sales were \$198,000, and the amount grew to \$800,000 by the end of year two.

Today Mary Kay Cosmetics is one of the highest-selling cosmetics companies in the world, with annual sales of over \$1.2 billion. Representatives number approximately 850,000 in 37 countries.

Mary Kay set out to create nontraditional employment opportunities that gave women the freedom to set their own hours and to earn either primary or supplemental income. She wanted women to work as independent salespeople and develop their own clientele. She also made it possible for women to be successful Mary Kay representatives without formal education or special work experience. It was her goal to allow them unlimited potential and access to unlimited success. Today her dream has come true.

In addition to being one of the most successful entrepreneurs of her time, Mary Kay was also a successful author. Her books include *You Can Have It All;*

her autobiography, *Mary Kay*; and *Mary Kay on People Management*.

Mary Kay Cosmetics has always been noted for rewarding successful representatives with recognition and cash. By awarding pink Cadillacs, diamond jewelry, bumblebee pins, and expensive vacations, the company ensures that women feel good about themselves and their careers.

Mary Kay Cosmetics is also a company that believes in worthy causes. In 1989, it was one of the first in the cosmetics industry to stop testing on live animals. Mary Kay was personally involved in the struggle to fight and find a cure for cancer.

She is also the only woman to be profiled in *Forbes* magazine’s “Greatest Business Stories of All Time.” She was honored by President Reagan and was one of the women entrepreneurs featured in the National Federation of Independent Business Report. Her company is the only one that has been featured three times in *Fortune* magazine’s “100 Best Companies to Work for in America.”

Mary Kay was a strong believer in entrepreneurship and private enterprise. Her overall philosophy can be summarized in two of her sayings: “If you think you can, you can. And if you think you can’t, you’re right.” And “People fail forward to success.”

Chapter 1

You as an Entrepreneur



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Objectives

- 1-1** Describe the nature of entrepreneurship.
- 1-2** Define what it takes to be a successful entrepreneur.
- 1-3** Explain the importance of choosing the right environment in which to work.
- 1-4** Explain the process of setting personal goals according to your values, attitudes, needs, and expectations.
- 1-5** Identify the sources of new business ideas.
- 1-6** Discuss the advantages and disadvantages of part-time entrepreneurship.

WHAT IS AN ENTREPRENEUR?

The development of the United States economy can be traced directly to **entrepreneurs** who possessed the vision and ambition to reach goals that many of us can barely imagine. From Henry Ford 100 years ago to Bill Gates today, these individuals were the founders of businesses and industries that have enhanced our standard of living. They were entrepreneurs—individuals who took great risks to pursue their dreams. They created businesses that produced wealth for our society in the forms of tax revenues, employment, and new products to make life more pleasurable. This is what entrepreneurs do. They invest money and/or time in commercial enterprises with the hope of achieving profits but also with the understanding that they are risking losses. Successful entrepreneurs can sense the needs of the marketplace and work to satisfy those needs. Whether they start a new business or create a new direction for an existing corporation or nonprofit organization, they are innovators. They make things happen.

The Role of the Entrepreneur

Entrepreneurs come from all types of backgrounds and are active in all forms of enterprise. They may be independent business owners, franchise owners, corporate or organization leaders (often referred to as intrapreneurs), or professionals such as lawyers, doctors, or artists who operate their own offices or galleries.

Figure 1-1 illustrates the percentages that small businesses account for in various categories. The small business sector generates more than half the jobs in the U.S. and a majority of product innovations. Small businesses often act as suppliers or distributors for large businesses. In recent years they have gained importance in the international marketplace as well. They are essential to the economic strength of our country. It is important for us to understand the entrepreneurs who lead these small businesses and what makes them successful.

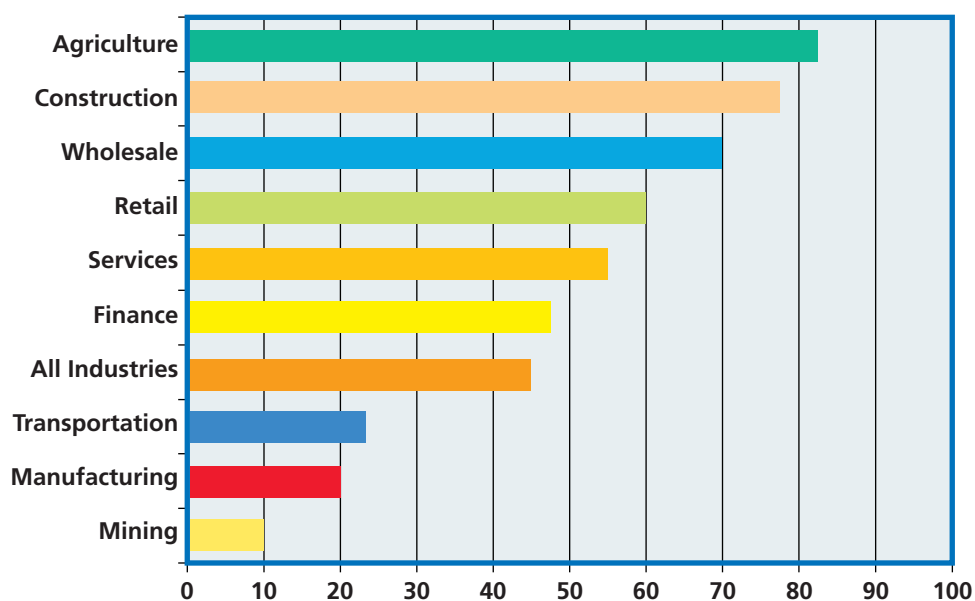


FIGURE 1-1

Small Businesses in Different Categories

Why Become an Entrepreneur?

There are three basic reasons to consider becoming an entrepreneur: to control your own destiny, to achieve independence from supervision, and to gain profits greater than a salary earned by working for others.

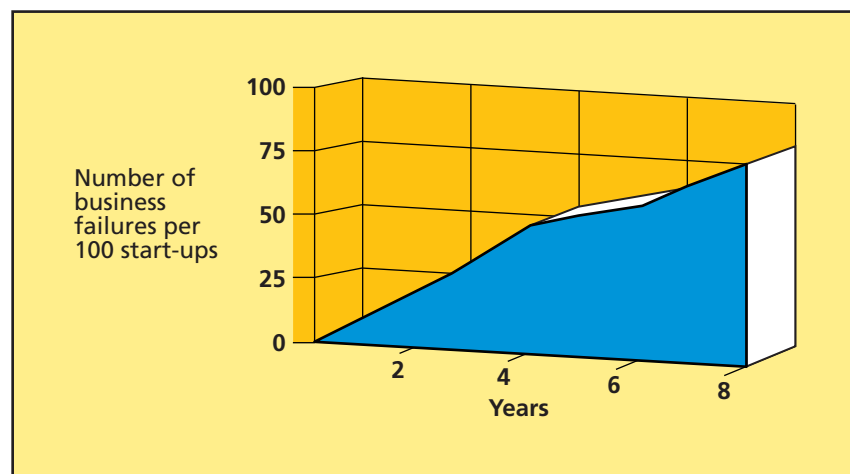
Controlling Your Destiny This benefit is normally the greatest motivator to the path of self-employment. As business owners, individuals can determine how they wish to run both their professional and private lives. Entrepreneurs plan their own business activities and schedule these activities around their personal commitments. They can prioritize for themselves rather than have a boss do it for them. Entrepreneurs are not told that they must attend an out-of-town meeting at the expense of important events in their personal lives such as a child's Little League game or other important family events. Entrepreneurs make these decisions based on how important they feel a business activity is and not how important someone else believes it is. An entrepreneur works for his or her own goals, not someone else's. This right is the greatest reward of entrepreneurship.

Independence from Supervision Although entrepreneurs must answer to the many people they depend on, including customers, lending institutions, suppliers, or, in the case of franchisees, the franchisor, they do not have a boss. Their business relationships are based on partnering, not supervising.

Achieving Great Profits The first two reasons are guaranteed, but achieving profits is not. Entrepreneurs are willing to take risks in order to achieve profits while at the same time recognizing that they may incur losses. Profits are the most difficult objective to achieve and often take considerable time to realize. Unfortunately, more new small businesses fail than succeed in the very competitive marketplace (Figure 1-2). It is important to note, however, that the majority of those failed businesses are poorly planned. If the entrepreneur is determined to succeed and the new business venture is properly researched and planned, the odds are greater for success than for failure. Taking entrepreneurship courses prepares an individual to take on the challenge of starting a profitable business.

FIGURE 1-2

Small Business Start-ups and Failures



CHARACTERISTICS OF SUCCESSFUL ENTREPRENEURS

The **Small Business Administration** (SBA), a federal government agency created to assist the development of the country's small businesses, reports that 24 out of every 100 businesses starting out today will not be open in two years. An additional 27 will close within four years, and within six years, 60 will no longer be operating. Although some businesses close for reasons other than failure, it is apparent that it is very difficult to succeed as a small business owner.

So who succeeds? In short, those who carefully plan and research their ideas are way ahead of those who don't. They write a business plan. A business plan serves as a blueprint or map that leads the aspiring entrepreneur to achieving the goal of a successful business. It validates the entrepreneur's intuition about the venture. Much of this textbook will discuss writing a proper business plan. However, certain personal characteristics are also essential for entrepreneurial success.

Self-confidence Entrepreneurs must feel confident in their ideas and in their ability to succeed. Small business owners cannot "pass the buck." They make the key decisions that determine the success or failure of an enterprise, without the advantage of the professional research staffs or numerous committees found in large corporations. As decision makers, entrepreneurs must trust their instincts and abilities. If a decision turns out to be wrong, they need the confidence to bounce back and face the next situation that requires a decision.

Determination and Perseverance There are times when things do not go as planned for the new business. It may be tempting to give up, fold up the tent, and go home. Successful entrepreneurs hang in there until the objective is achieved.

Creativity Why do some businesses selling the same product or service in the same marketplace succeed while others fail? It's likely because the successful entrepreneurs are doing some things better than their competitors. A competitive marketplace is dominated by those who can think and move quickly to attract and retain customers. This takes creativity. From the initial idea to the finished product, creativity is demonstrated in subtle but distinctive ways. Sensing the needs of the marketplace and generating ideas to meet those needs is a highly creative process.

The Need to Achieve Successful entrepreneurs are constantly setting new goals. The challenge of attaining those goals is fun for them. They are energetic, possess a high need for self-fulfillment, and feel good about their achievements. Sam Walton, founder of Wal-Mart, often said, "It's knowing what you want to achieve and then going about doing whatever is necessary to achieve it."

FUN FACTS

Did you know that the number of businesses owned by women has increased by 77 percent since 1983?



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Questions to Ponder

To determine if you have the characteristics of an entrepreneur, consider the following thought-provoking questions.



Small Business Technology

Network Solutions is a private, online, for-profit company that registers all web site names. Go online to www.networksolutions.com and investigate what domain names are available for a small business idea. Commercial businesses normally use the .com suffix, not-for-profit businesses use .org, educational institutions use .edu, and government institutions use .gov.

1. Do you give up on your favorite football team when it is two touchdowns behind with five minutes to play? (Determined entrepreneurs do not give up easily.)
2. If you see a stream, are you curious as to where it started and where it ends? (Entrepreneurs are constantly asking questions, looking for answers and information. Curiosity is part of the creative process.)
3. Do people look to you for leadership in critical times? (As a small business owner, the entrepreneur is captain, leader, and motivator. These roles require self-confidence.)
4. Are you constantly resetting your goals as you work toward a long-term objective? (Always reaching for new heights means achieving goals and striving toward new ones.)
5. Do you consult with others on most decisions? (Successful entrepreneurs must have the confidence to make decisions on their own.)
6. Do you tend to be a daydreamer? (Entrepreneurs are dreamers. Their dreams motivate them and produce creative energy. But the dreams must be based on reality.)
7. Do routine chores make you restless? (Entrepreneurs are action-oriented goal seekers who are somewhat restless. Keep in mind, however, that every venture involves routine and even boring tasks.)
8. Are you stubborn? (A certain amount of stubbornness comes with determination. Entrepreneurs are stubborn, but they're also sensible.)
9. Do you like yourself? (Confidence comes from within. Good leadership stems from self-assuredness.)
10. Is making money your only goal in starting a business? (For a true entrepreneur, the satisfaction of doing things on one's own ranks higher than making money.)



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Other questionnaires directed toward established, successful entrepreneurs have led to some interesting discoveries. For example, the Center for Entrepreneurial Management cites the following characteristics as common among entrepreneurs.

1. Many are the children of self-employed parents.
2. Many are descendants of parents or grandparents who immigrated to the United States.
3. Many were enterprising in their youth, operating part-time, independent enterprises such as lawn mowing, newspaper routes, house-sitting services, and so on.
4. Many are the oldest child.
5. The majority state that their prime reason for starting a business was to be on their own and not work for someone else.

WORK IN THE RIGHT ENVIRONMENT

Success as an entrepreneur requires being committed to a business and an idea. Commitment often involves long hours and an abundance of energy. If you are not in the right field, you will have difficulty making the necessary commitment over the long term. Working in an environment compatible with your interests allows you to reach your full potential. Setting goals in such an environment is stimulating and exciting.

The choice of a field or vocation should not be made without considering past experiences that were meaningful and fulfilling. An administrator who is restless while working at a desk but enjoys interacting with people needs to weigh that factor before considering opening a business that would confine his activities to an office. Analyzing past experiences gives the aspiring entrepreneur an idea of the environment that would most likely bring personal satisfaction and success in attaining goals.

Career Anchors

Dr. Edgar Schein of the Massachusetts Institute of Technology has identified five **career anchors**: technical, managerial, security, creativity, and autonomy. Within each of these anchors he identified vocational choices. Anchors in this context are important career motivators that help you make choices, determine directions, pursue ambitions, and measure success. They can help determine business choices and influence changes.



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An individual with a **technical anchor** gains satisfaction from being able to do a specific job correctly. People with technical anchors might be technicians, surgeons, craftsmen, or any kind of specialist. Such individuals are less concerned with titles and promotions than with being considered experts in their fields. They seek self-employment in areas that allow them to concentrate on a specific mission. Automobile mechanics, computer repair shop owners, hobby shop owners, and small technology manufacturers are examples of

entrepreneurs who work at specific pursuits.

Individuals with a **managerial anchor** are generalists as opposed to specialists. They enjoy working with people. They are able to handle many duties and responsibilities. As entrepreneurs, they do well in businesses with multiple outlets, or in businesses producing and selling many products. Chain store owners and manufacturers who produce a variety of products are examples of entrepreneurs with managerial anchors.

People with a **security anchor** are generally not equipped to handle the risks of self-employment. They are content to work in large organizational environments that offer regular paychecks, company benefit programs, and the assurance of long-term employment. Someone with a security anchor who is determined to be self-employed might purchase a well-established franchise such as McDonald's or Pizza Hut, or an existing business with a proven track record. However, businesses such as these are expensive to acquire because they have proven to be successful. The initial risk was taken by someone else who is entitled to additional compensation for successfully developing the franchise or business. Starting up a new business provides little in the way of security.

Individuals with a **creativity anchor** enjoy coming up with unique ideas. They do not like routine tasks and are constantly looking for new ways of doing things. They are often successful as small business owners because they can devise better ways to sell products or services. People with creativity anchors should be wary of business opportunities that depend principally on administrative talents. Promotion-based businesses such as advertising and retail merchandising are a better fit.

People with an **autonomy anchor** are free thinkers and individualists. They are seldom concerned with security. They like to do things their own way, with little interference from others. Individuals with an autonomy anchor have a natural aptitude for starting small businesses, although they sometimes lack the patience and endurance needed to stick with it. Inventors, writers, and artists are examples of this anchor classification.

FUN FACTS

Did you know that America's 25 million small businesses employ more than 58 percent of the private work force and generate more than 51 percent of the nation's gross domestic product?

Sample Career Anchor Questions

To determine what your career anchor may be, consider the following questions. Answering them truthfully and realistically can help lead you to the work environment that is right for you.

1. What are your primary career ambitions?
2. Do you prefer changes in your work responsibilities rather than permanent, unchanging tasks?
3. What do you dislike about your work?
4. Is it important for you to receive recognition?
5. When do you feel the most fulfilled by your work?
6. What will be most important to you when you seek your first job after graduation?
7. What strategy will you use to achieve job promotions?
8. What intangible characteristics of a career are most important to you?

Discuss your answers with a colleague or mentor. See if there appears to be a trend in your answers that confirms your initial guess as to your career anchor.



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VALUES, ATTITUDES, NEEDS, AND EXPECTATIONS

The ultimate goal of all entrepreneurs should be to match their values, attitudes, needs, and expectations with a business opportunity. The acronym **VANE** refers to these personal characteristics.

Values are the beliefs and inner convictions that you hold dear. When your actions do not reflect your values, you feel discomfort. Your **attitude** is how you feel about something. It transforms into habitual ways of viewing your environment. A positive attitude makes an optimist; a negative attitude makes a pessimist. There is no correlation between successful entrepreneurship and pessimism. **Needs** are the tangibles (the things you see) and intangibles (the things you feel) that you must have to maintain an acceptable lifestyle. When you identify a need, you are motivated to satisfy it. Successful entrepreneurs are good at identifying customer needs and also at working hard to satisfy their own needs. **Expectations** are the minimum goals that you attempt to achieve. Entrepreneurs are constantly raising their expectations as their business develops.

Aspiring entrepreneurs who have given thoughtful analysis to their values, attitudes, needs, and expectations will feel confident that they are personally prepared for the challenge ahead of them. If they are equipped with a proper business plan as well, they have greatly enhanced their chances for a successful business.



Ethics for ENTREPRENEURS

Mary Hamilton wanted desperately to be a stay-at-home mom, but she knew she would have to find a way to replace the income from her current job first. She was intrigued by some of the start-up business offers that came through her e-mail. “Earn \$2.50 For Each Envelope You Stuff! Stuff 800 envelopes, earn \$2000. Sign up now and receive a 2-night stay free at a plush resort!” Or “Invest \$1900, \$200,000 Annual Income Guaranteed! Receive commissions of 5% to 50%.”

When she made direct inquiries by telephone, she found the offers to be very misleading. One company requested a \$30 information fee. Another company was vague regarding the merchandise she would be buying for resale. Other companies informed her that her future income would depend on the efforts of those to whom she sold distributorships.

Discouraged, Mary decided that these companies had misrepresented the truth in their e-mail ads.

Think Critically

1. Do you believe that e-mail advertisements like these are misrepresentations? Do the companies have an obligation to be more forthcoming when attracting potential applicants?
2. Do your own Internet research on business offers like the ones above. Compare what you find with what your classmates discover.

Setting Personal Goals

Once career values, attitudes, needs, and expectations are determined, aspiring entrepreneurs need to look specifically at what business opportunities they should consider. Since successful entrepreneurs are goal-oriented individuals, it is important that the goal setting begins with stating priorities in their personal lives. Personal goals are established with respect to income, personal satisfaction, and status.

Income When setting realistic income goals, the new business owner must be aware that initially there is a direct correlation between how much time and money is invested and how much profit is realized. Over time, the owner’s experience, perseverance, and creativity determine profits. For instance, in most retail and service businesses, the owner will do well to make a profit of 15 percent of gross sales. To make a profit of \$45,000, the business must generate annual sales of \$300,000. Enough money must be invested in inventory, fixtures, and equipment to generate sales of \$300,000. If some of the initial money is borrowed, any principal and interest that is paid back must come from the \$45,000.

You have probably heard that it takes five years to get a business on its feet. Five years is the most commonly used payoff period on a new business loan. Until the initial debt is paid, there is seldom much extra income available for the owner. For example, an entrepreneur starts a business that requires an investment of \$100,000. The owner has \$50,000, borrows \$50,000, and promises to pay back the loan over five years (\$10,000 per year

plus interest). The first year, the business sells \$300,000 and makes a profit for the owner(s) of \$45,000. The owner(s) must pay the lender out of earned profits each year until the loan is paid off. The business finances will look like this after the first year:

Total investment	\$100,000
Borrowed funds	50,000
Sales	300,000
Profit	45,000
Less principal and interest	-13,000
Available to owner (before taxes)	32,000

Because the owner is forced to borrow, she or he will not be able to realize the goal of a \$45,000 personal profit until the debt is paid or there is growth in sales and profits. In reality, the owner has invested \$50,000 in personal capital and \$50,000 in borrowed capital, and has most likely given up a salary to make a risky \$32,000 per year. Before a business can be considered a success, not only should the original debt be paid but the owner should regain the initial investment as well. Although this takes time, once it has been achieved and sales increase, the profits can be generous enough to pay a good salary and show healthy retained earnings. **Retained earnings** are profits that remain in the business for either future use for business expansion or for distribution to the owner(s) as investment payback. The investment payback is termed **return on investment**.

In this case, the owner hopes to be paid back the original \$50,000 investment once the debt is retired. The same business five years later might look as follows:

Sales	\$400,000
Profit	60,000
Less principal and interest	-0
Available to owner as salary	45,000
Retained earnings (or return on investment)	15,000

Goal setting with respect to income needs and expectations must be realistic concerning amount invested, returned, and future potential return. Business owners should not expect a 100 percent payback on their investment within one year. They must realize they will likely have to make some financial sacrifices in their personal lives and, as a result, may have to adjust their goals and be flexible because of unexpected changes in business earnings.

Personal Satisfaction Goals for personal satisfaction are usually intangible and may include such things as what one wishes to contribute to one's family or community. People need to feel satisfied with what they do with their lives. Working in a career that is personally rewarding adds greatly to a feeling of satisfaction.



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Status In the context of entrepreneurship, status refers to the respect a business owner receives based on how others feel about his business or vocation. Declaring a status goal is an important step in determining the best business arena to enter. The noted psychologist Dr. Abraham Maslow includes status, the need for respect from others, as a fundamental need that we all share. Since owning a business involves great personal investment, it is important that the entrepreneur take pride in his efforts. Assuming the risks of business ownership earns recognition and respect from others, which in turn further motivate the entrepreneur.

Type of Work

After declaring your personal goals, your next step is to match those goals with the type of work that really excites you. Your preferences might include sales, office work, working with numbers, working with your hands, working outdoors, and others. This decision dictates what your main occupation will be for the many hours required to operate a successful business.

Another consideration is how you feel about working with people. Would you rather work alone? How do you feel about selling? Profits are generated by the exchange or sale of goods or services. Therefore selling is an important business function. Some entrepreneurs engage in direct, face-to-face-selling with customers. Others assign this responsibility to someone else or choose a business in which selling can be handled through the mail, through the Internet, or by telephone. In any selling situation there is interaction with employees, suppliers, and customers. Some businesses place more emphasis on one group than another. You must decide on the selling environment in which you feel most comfortable.

You will also have to decide the amount of time and involvement required to run the business. Is it to



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be a full-time endeavor, a part-time project, or possibly a business that will start small, with the goal of growing into a full-time business? Small businesses lend themselves to different arrangements, ranging from weekend or off-hours involvement to full-time management. Many businesses operate under **absentee management** in which the owner oversees the business but is not present on a regular basis. Often timing and the nature of the situation dictate the arrangement, as they did for Flora Ramirez.

During Flora's maternity leave from her job, she had more time available to work on her favorite hobby, making custom jewelry for her family and friends. Her imaginative creations were received with great enthusiasm. The husband of one of her friends was a manufacturer's representative for several clothing and accessory companies. After seeing Flora's creations, he offered to

take some samples with him to the fall fashion show at the Atlanta Apparel Mart. He returned with orders totaling more than \$25,000. Flora had the start of a prosperous full-time business and eventually hired her husband on a full-time basis as well.

Many successful businesses start out as part-time operations until sufficient demand for the product or service allows the owner to leave full-time employment.

Lifestyle

Small businesses come in all forms and sizes. Your preferred lifestyle should have a bearing on the type of business you open. Do you like to travel, work at night, entertain clients, or be entertained? For many, the idea of shaping and controlling their lifestyle is the greatest advantage and appeal of small business ownership. Starting your own business is a declaration of independence.

Capabilities

Your abilities and talents play an important role in the decision-making process. You need to give thought to the physical and psychological demands of your chosen venture. An inventory of skills—developed through education, career, hobbies, and interests—is also useful when assessing your capabilities.

Finally, what are your financial capabilities? This question is usually the toughest to answer and represents the biggest obstacle to effective planning. You must carefully determine how much money is available to you and how much you are willing to invest in a business. Your degree of confidence in your business idea and the amount of risk you're willing to take will help determine the optimum investment amount. You should not risk everything in a new business venture. You also need to consider personal living expenses for yourself and your family.

Tables 1-1 and 1-2 can serve as guides in determining your personal goals and financial resources. Determining available capital is further discussed in Chapter 14.



The Global **ENTREPRENEUR**

The international market is open for small businesses as well as large ones. It is estimated that over 25 percent of small businesses are engaged in international activities. Many are importers and exporters. The U.S. government encourages small businesses to enter the global marketplace, particularly as exporters. Products produced in the U.S. and sold overseas bring our country revenue and at the same time provide manufacturing jobs, a double bonus. Our economy prospers when we have a surplus trade balance, which is reached when we have more exports than imports. The Department of Commerce works closely with the Small Business Administration to offer assistance to small business owners interested in entering the global market.

Think Critically

1. List three small businesses that you believe would be good international businesses. Explain why you think they would do well.
2. Find the Small Business Administration office nearest to your city.

TABLE 1-1 GUIDE FOR SETTING PERSONAL GOALS

GOALS	Income Needed \$ _____ 1 st year \$ _____ 2 nd year \$ _____ 3 rd year	Personal Satisfaction <i>(Rank from 1 to 5)</i> <input type="checkbox"/> recognition by others <input type="checkbox"/> helping others <input type="checkbox"/> expressing creativity <input type="checkbox"/> developing expertise <input type="checkbox"/> other	Status Considerations <i>(Rank from 1 to 5)</i> <input type="checkbox"/> status in community <input type="checkbox"/> personal growth potential <input type="checkbox"/> expertise <input type="checkbox"/> other
TYPE OF WORK DESIRED	Type of Activity <i>(Rank from 1 to 6)</i> <input type="checkbox"/> sales <input type="checkbox"/> clerical <input type="checkbox"/> working with hands <input type="checkbox"/> working outdoors <input type="checkbox"/> technology <input type="checkbox"/> other	People Contact <i>(Rank from 1 to 5)</i> <input type="checkbox"/> direct contact with customers <input type="checkbox"/> indirect contact with customers <input type="checkbox"/> frequent contact with suppliers <input type="checkbox"/> close contact with personnel <input type="checkbox"/> work alone	Business Involvement <i>(Rank from 1 to 5)</i> <input type="checkbox"/> part-time <input type="checkbox"/> 40 hours/week <input type="checkbox"/> 10–12 hours a day, 5–7 days a week <input type="checkbox"/> weekends and off-time hours only <input type="checkbox"/> absentee management
LIFESTYLE CONSIDERATIONS	Travel <input type="checkbox"/> Yes <input type="checkbox"/> No	Entertainment <input type="checkbox"/> Yes <input type="checkbox"/> No	Community Involvement <input type="checkbox"/> Yes <input type="checkbox"/> No
PHYSICAL AND PSYCHOLOGICAL CAPABILITIES	<i>Example: age, stamina, ability to cope with pressure</i> _____ _____ _____		
LEARNED ABILITIES	<i>Example: specialist (languages, bookkeeping), generalist (office management)</i> _____ _____ _____		
FINANCIAL CAPABILITIES	<i>Example: How much money can you invest?</i> _____ _____ _____		
DEGREE OF RISK ACCEPTABLE <i>(Circle one.)</i>	1. High risk, high profit potential. 2. Moderate risk, moderate growth potential. 3. Lower risk, slower profit growth potential.		

TABLE 1-2 DETERMINING CAPITAL AVAILABLE

ASSETS		LIABILITIES	
Cash on hand and in bank	\$ _____	Notes payable to bank	\$ _____
Government securities	\$ _____	Notes payable to others	\$ _____
Stocks and/or bonds	\$ _____	Accounts and bills due	\$ _____
Accounts and notes receivable	\$ _____		
Real estate owned			
Home	\$ _____	Real estate mortgage	
Auto	\$ _____	Home	\$ _____
Other	\$ _____	Other	\$ _____
Cash surrender value	\$ _____	Other debts	\$ _____
Life insurance	\$ _____		
TOTAL ASSETS	\$ _____	TOTAL LIABILITIES	\$ _____
NET WORTH CALCULATIONS			
Total assets		\$ _____	
Less total liabilities		\$ _____	
Equals capital surplus		\$ _____	
Amount of capital willing to risk		\$ _____	

SOURCES FOR NEW BUSINESS IDEAS

Ideas for new businesses can come from a variety of sources.

1. **Previous Employment** People who do well at their jobs learn a profession and a great deal about market needs and how to satisfy those needs. They build a network of potential customers, suppliers, employees, and distributors. They are confident they can sell to this market more effectively than their present employer does. It's time to give it a try.
2. **Hobbies** A strong interest in a particular pastime may lead to commercial opportunities. Perhaps the individual has built a collection of artifacts or, like Flora Ramirez, finds a way to market a hobby.
3. **Intentional Search** The individual sets out on an extensive research project to find out what is missing in a particular market, what needs are begging to be satisfied. Many information networks are readily available, such as chambers of commerce, small business development centers, or small business consultants, to assist in the search for the perfect opportunity.

4. **Accidental Invention or Discovery** Someone may invent a new tool for working on a car engine or a gardening device that works better than what is sold at the local nursery. He takes the idea one step further and does research to see if it can be patented, who the competition is, what the manufacturing process would entail, and who the target market is.

Figure 1-3 illustrates the **creativity process** as described by an early American psychologist, Graham Wallas. It starts with discovery and interest, proceeds through research, and ends with the entrepreneur as captain of his domain—a successful new business owner. Each step involves a particular mindset, some dealing with simple intuition, others with details and rational thinking.

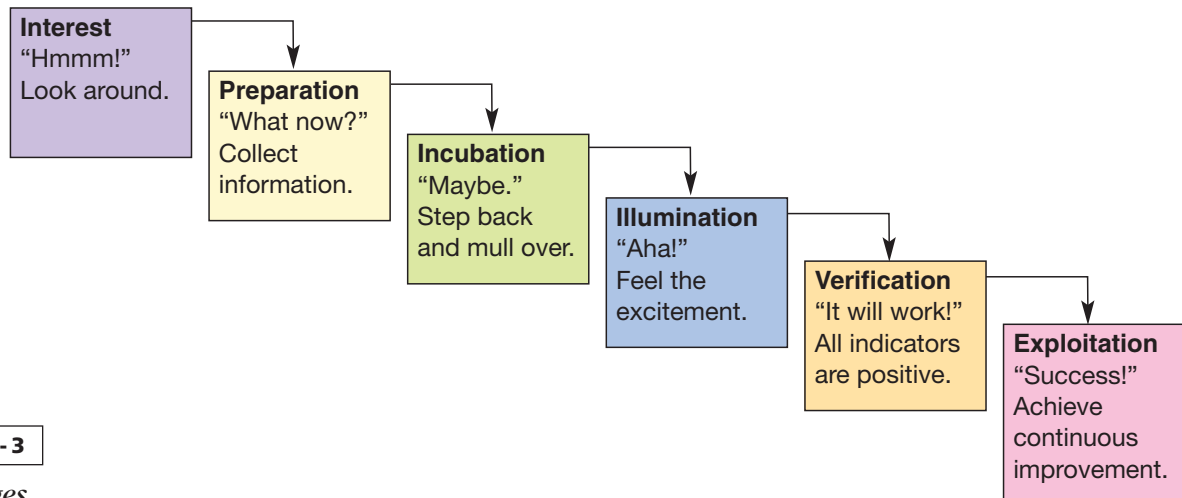


FIGURE 1-3

Creativity Stages

THE PART-TIME ENTREPRENEUR

Many enter the world of entrepreneurship on a part-time basis until the business has developed enough to support full-time occupation. It is estimated that there are over 10 million part-time businesses operating in the United States. Often these businesses are started at home after work hours and during weekends.

Advantages The goal of many part-time businesses is to build a market demand for a product or service until the owner can leave full-time employment and focus on the new business. Phasing in allows the entrepreneur to reduce much of the risk associated with new business start-ups. During this phase, the entrepreneur develops a customer base, sets up supplier relationships, and, most importantly, gains valuable experience.

Disadvantages It can be very tiring to operate a business and at the same time maintain full-time employment. One or both may suffer because of conflicting interests. The entrepreneur may feel as though she is always working. It can be difficult on family members as well. Whenever possible, it is wise to involve family members in the new enterprise.

The business plan for a part-time business should give particular attention to time management. It helps to make a list of all current responsibilities and block off the necessary time to complete them. Potential conflicts between regular employment, part-time business interests, and family obligations should be addressed from the very beginning.

Table 1-3 can be used as a guide to part-time business possibilities.

TABLE 1-3 CHECKLIST FOR SELECTING A PART-TIME BUSINESS

On a scale of 1 to 5, with 5 being the highest, rate each of the following businesses in terms of your level of interest, your personal strengths in that area, and the local market strength of the business.

	My Level of Interest	Personal Strength	Market Strength	Total Points
Personal Services				
housecleaning	_____	_____	_____	_____
babysitting	_____	_____	_____	_____
tutoring	_____	_____	_____	_____
secretarial	_____	_____	_____	_____
catering	_____	_____	_____	_____
direct mail	_____	_____	_____	_____
Handicrafts				
needlework	_____	_____	_____	_____
ceramics	_____	_____	_____	_____
jewelry design	_____	_____	_____	_____
upholstering	_____	_____	_____	_____
Artistic work				
painting	_____	_____	_____	_____
photography	_____	_____	_____	_____
prints	_____	_____	_____	_____
wire sculpture	_____	_____	_____	_____
engraving	_____	_____	_____	_____
Repair services				
small appliances	_____	_____	_____	_____
furniture	_____	_____	_____	_____
clothing	_____	_____	_____	_____
TV and radio	_____	_____	_____	_____
automotive	_____	_____	_____	_____
Instruction skills				
languages	_____	_____	_____	_____
math	_____	_____	_____	_____
gourmet cooking	_____	_____	_____	_____
music	_____	_____	_____	_____
home repairs	_____	_____	_____	_____
Mail-order ideas				
product sales	_____	_____	_____	_____
repairs	_____	_____	_____	_____
business service	_____	_____	_____	_____
Seasonal products				
foodstuffs	_____	_____	_____	_____
clothing	_____	_____	_____	_____
gift items	_____	_____	_____	_____
Party sales				
cookware	_____	_____	_____	_____
plants	_____	_____	_____	_____
plastic goods	_____	_____	_____	_____
cosmetics	_____	_____	_____	_____
Your own ideas				
For other ideas, check your local public library.				
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____

Source: *Small Business Administration, Publication MP15.*

Chapter Review

Ship in a BOTTLE

The Idea



“Honey, where did you buy my ship-in-a-bottle?”

“I got it at a closeout sale at that nautical gift store in Maine. It was going out of business, remember? Why do you ask?”

“Because I really like it. I’d like to start collecting them.”

Little did Fred Johnson know that this simple exchange of information with his wife, Jeanie, would lead to the start of a successful Internet business. His search for a new ship-in-a-bottle model led him to retail stores, catalogs, and the Internet, without success. He even attended, as a guest, the gift trade show at the Atlanta Merchandise Mart. He couldn’t find a single well-built model. Fred wondered how many other people were looking for the same thing. Had he stumbled on an unsatisfied need in the marketplace? He sensed that he had.

From his initial research, Fred learned that ship-in-a-bottle models had been around for 200 years. Sailors had created the first of these unusual artifacts during their long hours at sea. Today they are constructed much the same way. Each tiny ship is built outside the bottle with collapsible masts. Then it is inserted through the neck of the bottle with the masts down and attached to a blue putty base. The masts are hoisted with a wire, which is then cut.

Fred delved deeper into the Internet for information. He did find modelers who would sell customized models at exorbitant prices. He also found distributors of inexpensive souvenir versions. The souvenir types did not match the quality of the model that Jeanie had purchased in Maine.

Fred expanded his search to international web sites, where he finally found the exact model Jeanie had purchased three years earlier. The craftsman/manufacturer was Johann Schneider of Hamburg, Germany. Johann produced a line of over 100 models with retail prices ranging from 50 to 500 euros, depending on size and detail of work (the euro at that time was roughly equivalent to the U.S. dollar). Fred e-mailed Johann for information on how to purchase a model and also inquired as to the possibility of selling Johann’s products in the U.S. Johann was as excited as Fred about the chance to explore a new market. The Schneider family had been producing ship-in-a-bottle models for over 25 years. Johann had learned the craft from his seafaring grandfather. His annual European sales were over \$300,000, and he believed that he could produce more models if American demand were great enough. He immediately sent Fred sample bottles in three sizes.

Fred showed the samples to everyone who might have even the remotest interest, including the owner of an executive gift catalog company. She told Fred she would order a dozen models if he decided to import them.

An exchange of e-mails with Johann followed. They agreed on wholesale prices and some basic goals. They also decided that Johann would travel to the U.S. to discuss further possibilities.

“Wow,” thought Fred. “I do believe I’ve stumbled on a great business idea!”

Think Critically

1. Where is Fred in regard to the creativity process?
2. At this point should Fred consider ships in bottles as a part-time or full-time business venture?

Summary

Entrepreneurs are risk takers who are able to sense the needs of the marketplace. They are often small business owners who are willing to invest their money, time, and abilities in pursuit of achieving profits at the risk of incurring losses.

Entrepreneurs come from all backgrounds and form enterprises in all sectors of the economy. They open businesses not just for the sake of making profits but also from an overpowering need to achieve independence and control their own destiny.

Entrepreneurs are also found in large organizations and businesses, where they are often the most innovative, forward-thinking employees. They possess the personal characteristics of self-confidence, determination, creativity, and the need to achieve.

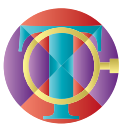
In order to perform at their highest potential, entrepreneurs need to work in environments that are personally satisfying to them. Their values, attitudes, needs, and expectations must match the goals they set out to accomplish.

It is mandatory that aspiring entrepreneurs write out a good business plan that serves as a guide to achieving their objectives. The research performed while preparing the business plan will validate whether the entrepreneur's idea serves a true market need. The business plan must take into consideration personal goals with respect to income, personal satisfaction, status, work content, and lifestyle.

If the entrepreneur is not working in an environment compatible with personal interests and goals, success will be very hard to achieve due to the amount of personal sacrifice often required in starting a new business. Opportunities that allow an individual to utilize personal and learned capabilities should receive priority attention.

Entrepreneurship is available to anyone with the necessary personal characteristics to succeed in building a business. Often entrepreneurs begin with a part-time venture that grows into a full-time occupation. Ideas for new businesses come from previous employment experience, hobbies, accidental discoveries, or an intentional search for a marketplace need.

A Case in **POINT** Unrealistic Expectations



"I'll tell you, Jerry, I'm paying the price for success." Bill Lankford was chatting over coffee with his friend, Jerry Gold. "I'm a senior executive, I'm financially set, but I'm too exhausted to enjoy it. Except for weekends, I've been home three nights in the past month. I'm losing touch with my family. My job has turned into a PR job—all I do is travel and make speeches. Success may be great for the ego, but what about the soul? I envy you owning your own business and being in charge of your life. I don't need the money as much as I need to slow down and smell the roses." Bill paused for a moment. "That's why I called you. I want your opinion on a business opportunity. There's a chain of six laundromats for sale here in the metro area. It sounds ideal to me. Take a look at this income statement from last year." Bill pulled a sheet of paper from a folder and handed it to Jerry, who looked it over carefully.

According to the income statement, the business was producing an \$80,000 net profit before the owner's salary was deducted. The selling price was \$150,000. Bill explained that he could cut his present salary to \$50,000, which would allow a \$30,000 payback

continued

Chapter Review

on the \$150,000, a 20 percent return on the investment. “I really want to do it, Jerry. It sounds ideal. Each unit has its own part-time manager, so if I want to take a trip with the family or play golf, I can do so. I can open more outlets to generate greater profits. I’ll control my own priorities, have the independence I want, and make good profits. No more corporate world. What do you think? Should I write the seller a check?”

Jerry scratched his head. “Bill, I think you need to slow down a bit. It may not be quite what you’re expecting. Believe me, I’ve owned a business for sixteen years, and it’s harder than you think. I don’t know the laundromat business, but I can guarantee you there will be unexpected surprises. You need to make sure this opportunity is what it appears to be and that it’s really something you want to do fifty-two weeks a year.”

“Aw, come on, Jerry, this will be a piece of cake compared to what I’ve been doing the past twelve years. I appreciate your concern, but unless I find problems with this proposal, I’m going to be an entrepreneur.”

Bill handed in his resignation the following month. There were good-bye parties, and a genuine display of sorrow on the part of his associates. He was deeply touched.

In many ways, Jerry proved to be right. Bill had not taken the time to thoroughly analyze his projected career and lifestyle. It was not a “piece of cake.” Equipment maintenance alone was a nightmare. He spent many afternoons surrounded by pieces of washing and drying machines. Store manager turnover was a problem because of the low wages. Bill had not realized that controlling an expense budget of \$180,000 of his own money could be as difficult as controlling the much larger budget of his previous employer. Every added expense was a subtraction from his already decreased salary. His first attempt at opening a new laundromat was a shock when he realized that it normally takes a few years for a business to become profitable.

Bill wondered if he had chosen the wrong business. Maybe he should have taken Jerry’s advice and not been in such a hurry.

Think Critically

1. List the steps Bill should have followed before deciding to buy the laundromat.
2. What should Bill do at this point?
3. Many aspiring entrepreneurs place their desires before their good sense. What can an entrepreneur do to make sure his plan supports his goals?

Vocabulary Builder

Write a brief definition of each word or phrase.

- | | |
|------------------------|-----------------------------------|
| 1. absentee management | 2. needs |
| 3. attitude | 4. retained earnings |
| 5. autonomy anchor | 6. return on investment |
| 7. career anchors | 8. security anchor |
| 9. creativity anchor | 10. Small Business Administration |
| 11. creativity process | 12. technical anchor |
| 13. entrepreneur | 14. values |
| 15. expectations | 16. VANE |
| 17. managerial anchor | |

Review the Concepts

18. Describe what makes a successful entrepreneur.
19. Why is writing a business plan necessary to achieve success?
20. How does determining an individual's career anchor(s) help in deciding on a business endeavor?
21. What are meant by values, attitudes, needs, and expectations as applied to entrepreneurship?
22. Why does it normally take five years for a business to become successful?
23. List the six steps of the creativity process.
24. What are the advantages and disadvantages of starting a part-time business?

Critical Thinking

25. Explain why entrepreneurs are so vital to the economic well-being of our country.
26. How do the four essential characteristics of successful entrepreneurs relate to the reasons individuals open small businesses?
27. Discuss the importance of working in the right environment and the risks involved in working in unfamiliar occupations.
28. Apply your personal VANE analysis to choosing a business.
29. Explain the danger of not considering return on investment when deciding on a business opportunity.
30. Describe a source of new business ideas other than the ones listed in the chapter.
31. What businesses do you believe are needed in your community? Why?

Project

Build Your Business Plan



As you proceed through the textbook, write out a business plan for a hypothetical business of your choice. Each chapter will give you suggestions for each step. The challenge for this chapter is to determine what type of business you wish to investigate. Once you have decided, write a paragraph describing why you have chosen that particular business.