

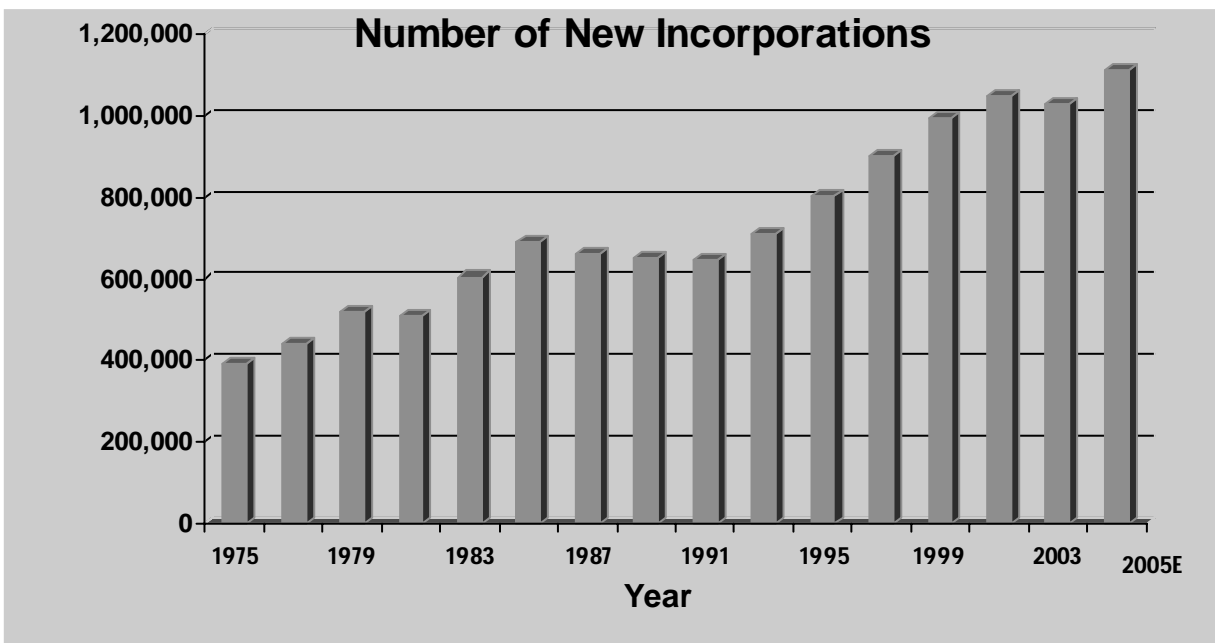
Entrepreneurship Basics

“Being defeated is often a temporary condition. Giving up is what makes it permanent.”

Marilyn vos Savant

Entrepreneurs

- o **Resurgence of the entrepreneurial spirit** is one of the most significant developments in recent business history.
 - ◆ One out of every 25 adults is actively involved in trying to start a new business.
 - ◆ Entrepreneurs are launching record numbers of new businesses:



- o Small businesses now account for:
 - ◆ 53% of private sector sales, output and employment.
 - ◆ 50% of total business debt and net worth.
 - ◆ 99.7% of the total number of employers.

Entrepreneurship Basics

- o **Very small businesses** (under six employees) **are creating 95% of new USA jobs.**
- o Similar trends are evident elsewhere in the world. **Entrepreneurship is surging** in Russia, China and other countries that have abandoned central government planning and control over most economic activities.
- o America's largest corporations are engaging in massive "downsizing". They have cut large numbers of long-serving managers and employees from their bloated payrolls. These castoffs, with solid management experience and many years of productive years left before retirement -- have joined the growing ranks of entrepreneurs.
- o **Many people thought they would spend a lifetime climbing the corporate ladder.** Downsizing has badly damaged the long-standing notion of corporate job security. Consequently, people who once saw launching a business as too risky -- now see it as an ideal way to create their own job security!
- o **Small businesses are diverse.** They benefit from rapid macro change and a growing sense of impermanence that arises from large corporate downsizing and restructuring. Implied social contracts / job security (working for a large company) are much reduced. **Job satisfaction is substantially higher among employees of small companies.**
- o **Changes in technology** -- computers, electronics, and telecommunications -- have allowed many small firms to compete effectively with large corporations.
- o **More globalization** -- is impacting small business. There is an increasing opportunity to export, but also an increased competitive threat from imports.
- o **Customization** and individualization of products/services are becoming more common. Mass production and mass media are stagnant, slowly becoming extinct.
- o **New patterns of connectivity** and clusters enable small businesses to attack market shares of old, larger firms -- taking away their markets and customer relationships.
- o Small businesses face an aging, diverse workforce. Only 1/7th of new workers are white males. The majority of new workers are women, immigrants and minorities.
- o **Outsourcing** -- large firms are creating niche opportunities for smaller firms by laying off many activities once performed inside the large firm.

Entrepreneurship is, *"Life without a safety net -- thrilling and dangerous."*

Entrepreneurship Basics

What's Feeding The Fire?

- o **Entrepreneurial Education** -- Universities have discovered that entrepreneurship is an extremely popular course of study. Some 1,500 colleges and universities offer courses in entrepreneurship to over 20,000 students annually. Many educational institutions have trouble meeting the demand for such courses.
 - o **Economics and Demographics** -- Most people start their businesses between the ages of 30 and 40. The baby-boomer generation now is well into this age bracket. More people are learning that *anyone* can start a business, regardless of age, gender, race, national origin, social status or economic background.
 - o **Service Economy** -- The service sector now produces 90% of all jobs and 85% of GDP in the U.S. Because of relatively low startup costs, service startups have been very popular with entrepreneurs.
 - o **Technology** -- With the help of electronics and telecommunication technology -- such as fax machines, laptop computers, cell phones, copiers, color printers, answering machines, voice mail and the Internet -- even one person working at home can look like a big business to the customer.
 - o **Independent Lifestyle** -- Many people want the freedom to choose where they live, the hours they work, and what they do.
 - o **International Opportunities** -- the global economy rapidly is opening up tremendous new opportunities for those entrepreneurs willing to reach out across borders. While only 9% of U.S. firms (with 100 or fewer employees) export, these small companies account for 20% of total exports and a rate of growth exceeding larger companies.
 - o **Women Entrepreneurs** -- women are starting new businesses at a rate 2.5 times that of men. There is no "glass ceiling" when you own the business. Women own 40% of all U.S. businesses -- 8 million of them. These firms produce \$2 trillion in sales and employ 17 million workers, 35% more than all the *Fortune 500* companies combined.
 - o **Minority Enterprises** -- while still representing only a tiny fraction (3%) of all business firms, new startups by African-American entrepreneurs are growing at a rate more than double that of total new business formations.
-

Entrepreneurship Basics

“An **entrepreneur** is one who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth, by identifying opportunities and assembling the necessary resources to capitalize on them.”

- o The one general thing to say about the typical characteristics of an entrepreneur is that it is difficult to say general things about an entrepreneur’s typical characteristics.
 - o **Desire for Responsibility:** Entrepreneurs tend to feel a personal responsibility for the outcome of their business ventures. They prefer to be in control of their resources. They use those resources to achieve self-determined goals.
 - o **Preference for Moderate Risk:** Good entrepreneurs are risk avoiders, not risk takers. Entrepreneurs may *seem* to be risk takers because they see the market differently than others do. They create a new or revised product or service that will converge with how the culture is changing. They methodically eliminate all the factors that will prevent them from getting to the market. They become risk eliminators.
 - o **Confidence in their Ability to Succeed:** Filled with an abundance of confidence, entrepreneurs tend to be optimistic about chances for success. One recent study found that one-third of the entrepreneurs rated their chances of success to be 100%.
 - o **Desire for Direct Feedback:** Entrepreneurs want to know how they are doing and are constantly looking for reinforcement. “Nothing gives you feedback like your own firm.”
 - o **High Levels of Energy:** Entrepreneurs tend to have more energy than average, which is a good thing -- given the incredible work effort required to launch a startup company. Long hours and hard work are the rule, not the exception.
 - o **Future Orientation:** Traditional managers are concerned with managing resources. Entrepreneurs are more interested in spotting and capitalizing on opportunities.
 - o **Skill at Organizing:** Like piecing together a jigsaw puzzle, entrepreneurs must combine the right people and jobs effectively.
 - o **Value of Achievement Over Money:** Contrary to myth, entrepreneurs are not driven wholly by the desire to make money. *Achievement* and ego seems to be most entrepreneurs’ primary motivating force. Money often just is a way of keeping score.
 - o Other Characteristics Frequently Shown: High degree of commitment, tolerance for ambiguity, flexibility and tenacity.
-

Entrepreneurship Basics

Competencies of Entrepreneurs

PROACTIVITY		
1	Initiative	Does things before being asked or forced by events.
2	Assertiveness	Confronts problems directly. Tells others what to do.
ACHIEVEMENT	ORIENTATION	
3	Sees and acts on opportunities	Seizes unusual opportunities to start a business, obtain financing, land, work space, or assistance.
4	Efficiency focus	Looks for and finds ways to do things faster or at less cost.
5	Concern for high quality work	States desire to produce a better product or service.
6	Systematic Planning	Breaks a large task down into subtasks or sub-goals. Anticipates obstacles. Evaluates alternatives.
7	Monitoring	Develops or uses procedures to ensure work is completed or that work meets standards of quality.
COMMITMENT		
8	Work Commitment	Makes a personal sacrifice or expends extraordinary effort to complete a job. Pitches in with workers to get a job done.
9	Recognizes the importance of relationships	Acts to build rapport or friendly relationships with customers. Sees interpersonal relationships as a business resource. Places long-term goodwill over short-term gain.

Psychological Profiles:

CONVENTIONAL MANAGER	ENTREPRENEUR
○ Very conscious of rules or taboos.	○ Views rules as guidelines only.
○ Sensitive to the future and willing to postpone rewards or feedback.	○ Concept of future based on personal fantasy. Low threshold of frustration.
○ Has a powerful need for acceptance.	○ Ambivalent toward control, success and responsibility. Can be manipulative and exploitative of others.
○ Able to identify problems in any course of action. Makes detailed plans.	○ Impatient with discussions of theories. Is prone to action and seems impulsive.

Entrepreneurship Basics

Benefits of Owning the Business

- o Owners of small businesses believe they work harder, earn more money, and are happier than if they worked for a large company.
- o **Opportunity to gain control over your destiny** -- achieve what is important to you.
- o For some entrepreneurs, **an opportunity to make a difference** -- combining concerns for social issues with the chance to make a good living.
- o **Opportunity to reach your full potential** -- situations where your growth is limited only by your own talent and energy.
- o **Opportunity to reap unlimited profits.** Although money is not the driving force for most entrepreneurs, profit can be a motivating factor. A majority of billionaires on the *Forbes* list of wealthiest Americans: entrepreneurs who started their own company.

“Starting your own company always has been the best way to create wealth. And even if you don’t get rich doing it, you’ll still have more fun.”

- o **Opportunity to do what you enjoy** -- most successful entrepreneurs choose to enter particular fields because they have an interest in them. Their work is not really work. *“Find a job doing what you love, and you’ll never have to work a day in your life.”*

Potential Drawbacks

- o **Uncertainty of income**
- o **Risk of losing entire investment** (time, money, energy) -- **Failure rate** for startups:

<u>Time Period</u>	<u>% Out of Business</u>
First 2 years	25%
First 4 years	50%
First 6 years	66%

- o **Long hours and hard work:**

Hours Worked Per Week	Entrepreneurs	Factory Workers	Yale SOM Professors ¹
01-39	8%	25%	65%
40-49	15%	55%	30%
50-59	23%	15%	5%
60-69	29%	5%	
70-79	13%		
80+	12%		

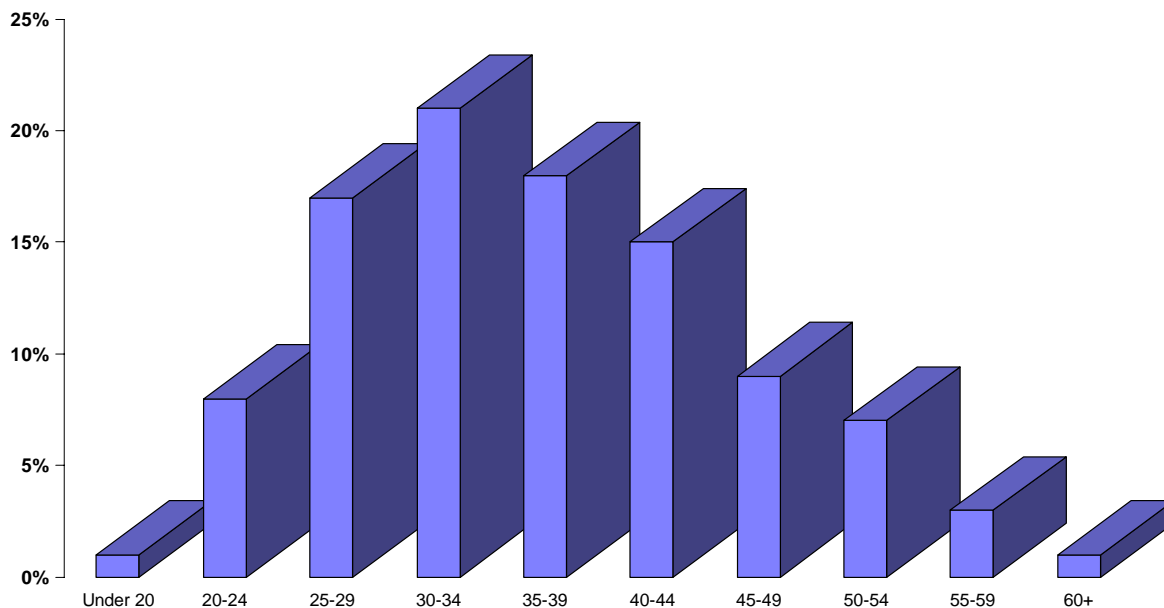
¹ Students should constantly be on guard for the professor’s strange sense of humor.

Entrepreneurship Basics

Potential Drawbacks (Continued)

- o **Lower quality of life** -- until the business gets established. Long hours take a toll on the rest of the entrepreneur's life. Marriages and family life take a back seat. Part of this problem is because most entrepreneurs launch their business between the ages of 25 and 39, just when they start their families:

Age When Started Business



- o **Complete Responsibility** -- It's great to be the boss. But many owners find that they must make decisions about which they are not knowledgeable. This stress has a devastating effect on some people. **Owners discover that *they* are the business.**
- o **Being the Boss -- is not all it's cracked up to be.** Entrepreneurs may be the chief executive officer, but they have continuing responsibilities to their customers, suppliers, employees, the investors and (for larger companies) to their Board of Directors. Successful entrepreneurs do *not* have complete freedom of action.

Entrepreneurship Basics

Types of Entrepreneurial Business

- o **There is a great diversity of small businesses.** Virtually every industry or location. The following is a partial list of different types of ventures:

- ♥ Part-time entrepreneurs
- ♥ Self-employed persons
- ♥ Copreneurs (married couples)
- ♥ Home-based business
- ♥ Family business
- ♥ Mom & Pop retailers
- ♥ Micro-firms
- ♥ High tech entrepreneurial
- ♥ Struggling minority firms
- ♥ Strategic alliance firms
- ♥ Main Street firms
- ♥ Life style firms

- o Some of categories overlap. The classic venture -- backed by professional venture capital investors and which then becomes a \$100 million public company within 5-7 years -- is a very small percentage (far less than 1/10 of 1%) of total new businesses.
- o Entrepreneurial activity also goes on inside **large corporations**. Most such companies **stifle innovation, rather than encourage it**. Those large companies that do best in encouraging innovation tend to have explicit top management support. Managers talk about innovation constantly and conspicuously reward employees who do innovate.

Other Aspects of Diversity:

- ♥ Different markets
- ♥ Organizational forms
- ♥ Aspirations of owners
- ♥ Concerns about control
- ♥ Management styles
- ♥ Risk aversion
- ♥ Skills and capabilities
- ♥ Different Industries:

Industry	Percent
Retail	28%
Service	24%
Construction	14%
Wholesale	11%
Manufacturing	9%
Finance	7%
Other	7%
Total	100%

- o **Age of the Business -- and Stage of Development:**

- ♥ Seed Capital
- ♥ R&D Phase
- ♥ Startup
- ♥ Early Stage
- ♥ Later Stage
- ♥ Public Company

Entrepreneurship Basics

Survival

Since most new business ventures do not survive long, the main issue for entrepreneurs is not how to become the next Microsoft -- but rather how to avoid going bankrupt.



External Obstacles To Success

- o **Access to capital** -- is a *major* problem for many new ventures:
 - ◆ Banks like to lend \$ when you don't need it. Startups are not loan candidates.
 - ◆ VC firms prefer larger, later stage ventures -- with a very big upside potential.
 - ◆ Government agencies and Small Business Administration possible, but tough.
 - ◆ Funding in the range of \$250,000 to \$1 million is very difficult to find.
 - ◆ Credit cards, home equity loans, savings and friends & family -- typical sources.
- o **Regulations and Taxes** -- licenses, forms, permits, compliance with rules, paperwork, payroll taxes, sales taxes, income taxes -- are a heavy burden on small businesses.
- o **Rights to Intellectual Property** -- protection of proprietary technology -- obtaining trademarks, copyrights and patents -- confusing, complicated -- and very expensive.

Internal Business Killers

- o **Management Incompetence** -- Any experienced venture capital investor will tell you the three most critical ingredients for success are: (1) people, (2) people and (3) people. Poor management accounts for more failures than all the other reasons combined. A variety of skills and knowledge are essential. (See Introduction Note.)

Entrepreneurship Basics

Business Killers (Continued)

- o **Lack of Experience** -- Even if not incompetent, experience in the field you want to enter is important to success. Knowledge of how the business works. If the new business is similar to one's past experience, then the odds of success go 'way up. Even more important than experience (with a craft or an industry), is experience in management, in actually running something. And running it successfully.²
- o **Poor Financial Records and Controls** -- good financial records enable managers to understand how they are doing, financially, and to spot and fix weaknesses.
 - ◆ Within this category -- are lax customer credit practices.
 - ◆ Pressure to sell on generous credit terms -- can be intense.
 - ◆ The owner must control credit sales and collection practices.
- o **Lack of Capital** -- Start with adequate capital. Going into business on a shoestring often is fatal. **Most entrepreneurs are too optimistic** about financial requirements. The business takes much longer to develop, and costs far more, than they expected.
- o **Failure to Develop A Strategic Plan.** *"Failure to plan is planning to fail."*
- o **Uncontrolled Growth** -- Expansion usually requires changes in the organizational structure and business practices -- such as inventory and financial controls, personnel assignments, and internal communications. Managerial expertise must increase as complexity rises. Many entrepreneurs encourage rapid growth only to have the business outstrip their ability to manage it. For successful new ventures backed by professional venture capital investors, only about 1 founder out of 10 still is the CEO at the time of an initial public offering (IPO.)
- o **Poor Location** -- The location matters to many businesses, especially retailing. Entrepreneurs often choose a business location without proper research and analysis. The location "was available" or "very cheap." (Yes, and here's a cheap, loaded gun with which you can shoot yourself in the foot.)
- o **Improper Inventory Control** -- Too little inventory, too much inventory (cash is tied up) and especially too much of the wrong type of inventory (useless stuff.)
- o **Failure to Grow with the Business** -- Many entrepreneurs simply cannot learn to delegate and relinquish hands-on control. The very skills that enable an entrepreneur successfully to launch a startup may become a noose.

² Do inexperienced people who have never run a business before, sometimes succeed? Yes. But one also can walk across a busy highway, blindfolded, and the milk and honey truck will not hit you, this time.
