

ENTREPRENEURSHIP: A WORLD OF OPPORTUNITY

PART 1

CHAPTERS

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CHAPTER

1

The Entrepreneurial Life

In the SPOTLIGHT Table Occasions

A booming business. A community's respect. A success story. It all began as a whim for Chia Stewart and her lifelong friend Claudia Narvaez. In 2006, the dynamic duo pooled their talents and put their determination to the test by entering an ambitious local table-decorating competition, El Paso Pro Musica Tablescapes, to benefit the nonprofit music organization. The friends decided that if their table was recognized, they would launch a related business; and if not, at least they would have exercised their creativity and had fun. Their inspired entry, "An Enchanted Garden Baby Shower," won first place and marked the dawning of a new business, Table Occasions.

Table Occasions is represented by a simple table transformed into a celebration through creativity, dedication, and collaboration.



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Stewart maintains that the most basic element of planning a table setting is the selection of linens, which are made in the region—an added economic benefit to their border community. "The fabrics are like works of art that provide the inspiration and passion for our designs as well as for our collaborators' contributions, whether flowers, food, or music."

For Narvaez, it's about bringing it all together—from the perfect chair to the right wine goblet to the ideal vase filled with flowers that complement the design perfectly. "We are passionate about the creative aspects of our business, along with our desire to please

our customers. We experience the greatest fulfillment when we see the joy in the eyes of our customers when their dream 'table occasion' comes to life," Narvaez exclaims.

When Table Occasions opened its doors, its founders were averaging only one event a weekend—certainly not enough business to survive.

After studying this chapter, you should be able to . . .

1. Define the terms *entrepreneur* and *small business owner*, and explain how the terms are related.
2. Explain the basic characteristics of entrepreneurial opportunities, and give examples of individuals who successfully started their own businesses.
3. Describe some motivators or rewards for owning your own business.
4. Identify some of the basic types of entrepreneurs and entrepreneurial ventures.
5. Describe five potential competitive advantages of small entrepreneurial companies compared to large firms.
6. Discuss factors related to readiness for entrepreneurship and getting started in an entrepreneurial career.
7. Explain the concept of an entrepreneurial legacy and the challenges involved in crafting a meaningful legacy.

LOOKING
AHEAD

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Today, they plan and coordinate more than 10 events each week, from intimate dinner parties to lavish events with hundreds of guests. They work with brides, event planners, wedding consultants, floral designers, caterers and others to come up with the perfect colors and schemes for any occasion. "The most rewarding part of this business," Stewart observes, "is the opportunity to work one on one with clients and guide them to find their perfect visions." The business has established a new decorating standard for events in its hometown community of El Paso, Texas, taking parties to the next level of creativity and elegance.

Stewart and Narvaez have now begun to give back to their community. In Stewart's words,

We believe it is important for any business, no matter how large or small, to support the community that supports it. We facilitate nonprofits by taking their events to the next level of attractiveness and warmth, thereby increasing

the awareness of their cause and in turn enhancing their support. At the same time, it gives us a renewed sense of purpose. As a result, Table Occasions is now sought out by many nonprofit organizations in the community, including the El Paso Children's Rehabilitation Center, the El Paso Symphony Orchestra, the El Paso Chapter of the American Heart Association, and El Paso Pro Musica.

Stewart and Narvaez remain humbled by their success and are grateful for the support that comes from their families. When they are in "creative mode," patient husbands and grandmothers help them work around family obligations. "We had a dream and worked hard to make it come to life with the help of our support network," Stewart says. "We hope our story inspires others to dedicate their skills to spending every day doing what they love."

Source: Personal conversation with Chia Stewart, December 2, 2010.

The purpose of this chapter is to provide an overview of small business and entrepreneurship, along with stories and examples of entrepreneurs who started and grew businesses. The chapter will give you a better understanding of what it takes to be an owner of a small business. It is our hope for anyone contemplating owning a business that this chapter will "light the fire" of your creativity and encourage you to act on your intentions. Subsequent chapters will build on this chapter by providing increasing details about how to start and grow a small business.

If you have a serious interest in starting and operating your own business—whether now or in the future—you are not alone. A major theme of the past 60 years in business is the large number of persons, in the United States and around the globe, who want to own their own business. Within the United States, it is estimated that 12 million people are involved in some form of entrepreneurial venture, and that as many as half of all adults will be engaged in self-employment at some point during their working careers.¹ The Small Business Administration reports that small firms²

- Represent 99.7 percent of all firms with employees.
- Employ more than 50 percent of all employees working in the private sector.
- Account for 45 percent of private payrolls.
- Generated 60 to 80 percent of all new jobs (net) over the past decade.

- Create more than half of the country's gross domestic product.
- Hire 40 percent of high-tech employees, such as scientists, engineers, and programmers.
- Represent 97.3 percent of all exporters.

In a study sponsored by the Kauffman Foundation Research Series, Tim Kane talks about the role of startups in job creation:

The oft-quoted American sports slogan “Winning isn’t everything. It’s the only thing” could well be attributed to the economic importance of firm formation in creating jobs. . . . A relatively new data set from the U.S. government called Business Dynamics Statistics validates that U.S. startups classified as “less than one year old” create an average of 3 million new jobs annually. All other ages of firms, including . . . firms established two centuries ago, are net job destroyers, losing 1 million jobs net per year.³

Paul Reynolds, a leading researcher in the field, says that entrepreneurship is “on the scale of a lot of other major social phenomena.”⁴ Henrik Fisker, formerly the head designer for BMW and Ford and founder of Fisker Automotive, based in Irvine, California, concurs with Reynolds. Fisker Automotive’s first product, the Fisker Karma, is the world’s first luxury plug-in hybrid electric vehicle. When considering how to compete with the major auto manufacturers, Fisker contends,

We don’t have to do things the same way. We can take the economy in hand and drive our own destinies. And a movement that has been slowly building in the business world is finally taking hold: We’re seeing the beginnings of the entrepreneurial economy, a system built on nimble, low-overhead, oftentimes small companies with fluid workforces, rather than the massive conglomerates that have upheld the economy for decades.⁵

An entrepreneurial fever is also sweeping the nation’s community colleges, universities, and career schools, as students take classes to learn how to launch, finance, and run their own companies. Universities across the United States are adding entire programs on entrepreneurship, and many more schools offer at least one or two classes—and still cannot handle the student demand for information.

Twenty years ago, taking a course on starting a business was of little interest to students who wanted to be consultants and Wall Streeters. Today, entrepreneurship education is widely available. More than two-thirds of U.S. colleges and universities—well over 2,000—are teaching the subject, up from 200 in the 1970s.⁶ There is also a network of over 200 university entrepreneurship centers, comprising the Global Consortium of Entrepreneurship Centers, that meet each year and share what they are doing. John Fernandes, president and CEO of the Association to Advance Collegiate Schools of Business International (the organization that accredits business schools around the



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world), puts it this way: “Entrepreneurship will continue to grow and mature into a distinct management discipline. Elements of entrepreneurship will emerge as essential to any business education.”⁷ In other words, in today’s world your business courses, whatever your particular specialty or major, should include the study of entrepreneurship. Business students, along with engineers, teachers, artists, pharmacists, lawyers, nurses, and many others, are heeding the call to own their own businesses.

You are about to embark on a course of study that will prove invaluable if you aspire at some point to own your own business. Doing so can provide an exciting life and offer substantial personal rewards, while also contributing to the welfare of society. As a general rule, when small business owners talk about what they are doing and what their plans are for the future, you can feel their excitement and anticipation—mixed at times with a bit of fear and trepidation. But as one entrepreneur told us, “Owning my own business keeps me from being lazy. You must constantly be learning, or you will not survive.”

Taking a small business or entrepreneurship class is not likely to turn a student who lacks basic business intuition into an opportunity-spotting, money-making prodigy. Yet there is considerable evidence suggesting that such classes can facilitate the learning curve for those who have the “right stuff.” These classes teach many of the basic skills required for success, such as determining if a business idea is a good opportunity, acquiring needed resources, writing a business plan, marketing a product or service, and learning how to impose structure and deadlines on your dreams.

Having worked for over three decades with both entrepreneurs and students who aspire to own businesses, we have designed this book to prepare you for the entrepreneurial journey. In addition, we will be drawing on the extensive experience of entrepreneurs who offer their advice and counsel on important issues. So, buckle up, you are in for an exciting adventure!



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Entrepreneurship and Small Business

Thus far, we have used the terms *entrepreneurship* and *small business* in a very general way. Let’s take a more detailed look at these two terms to gain a better understanding of what they represent. Both are at the heart of all that you will study in this book.

WHO ARE THE ENTREPRENEURS?

Entrepreneurs are frequently thought to be individuals who discover market needs and launch new firms to meet those needs. They are risk takers who provide an impetus for change, innovation, and progress in economic life. (In contrast, salaried employees receive a specified compensation and do not assume ownership risks.)

For our purposes, we will not limit the term *entrepreneur* only to business founders; instead, we will include second-generation firm owners, franchisees, and owner-managers who have bought existing firms. While we will most often focus on owners of businesses in this book, our thinking also includes individuals in not-for-profit organizations who



entrepreneur

A person who is relentlessly focused on an opportunity, in either a new or an existing business, to create value while assuming both the risk and the reward for his or her effort.

bootstrapping

Doing more with less in terms of resources invested in a business, and, where possible, controlling the resources without owning them.

small business

A business that is small compared to large companies in an industry, has geographically localized operations, is financed by only a few individuals, and has a small management team.

think and act entrepreneurially. So for us, an **entrepreneur** is a person who relentlessly pursues an opportunity, in either a new or an existing enterprise, to create value while assuming both the risk and the reward for his or her efforts. Furthermore, entrepreneurs think differently about resources than do employee-managers. While managers in large corporations so often think like administrators or bureaucrats—wanting larger budgets or more employees in their departments—entrepreneurs work to do more with less. They even try to find ways to use other people’s resources, or what is called **bootstrapping**. So for the entrepreneur, it is all about identifying a value-creating opportunity and, *equally important*, executing the opportunity. Many people see opportunities, but don’t follow through. Execution is what separates entrepreneurs from the rest of the world.

WHAT IS A SMALL BUSINESS?

What does it mean to talk about “small business”? A neighborhood restaurant or bakery is clearly a small business, and Toyota is obviously not. But among small businesses, there is great diversity in size.

Many efforts have been made to define the term **small business**, using such criteria as number of employees, sales volume, and value of assets. But there is no generally accepted or universally agreed-on definition. Size standards are basically arbitrary, adopted to serve a particular purpose. For example, legislators sometimes exclude firms with fewer than 10 or 15 employees from certain regulations, so as to avoid imposing a financial burden on the owner of a very small business. However, for our purposes, primary attention will be given to businesses that meet the following criteria:

1. Compared to the biggest firms in the industry, the business is small; in most instances, the number of employees in the business is fewer than 100.
2. Except for its marketing function, the business’s operations are geographically localized.
3. Financing for the business is provided by no more than a few individuals.
4. The business may begin with a single individual, but it has the potential to become more than a “one-person show.”

Obviously, some small firms fail to meet all of these standards. For example, a small executive search firm—a firm that helps corporate clients recruit high-level managers—may operate in many sections of the country and thereby fail to meet the second criterion. Nevertheless, the discussion of management concepts in this book is aimed primarily at the type of firm that fits the general pattern outlined by these criteria.

Thus, small businesses include tiny one-person firms—the kind you may decide to start—and small firms that have up to 100 employees. In most cases, however, they are drastically different in their structure and operations from the huge corporations that are generally featured in the business media.

YOU CAN BE BOTH AN ENTREPRENEUR AND A SMALL BUSINESS OWNER

While certainly not all entrepreneurial endeavors are geared toward owning a small business, having an entrepreneurial mindset is critical to the success of any venture, regardless of size. That mindset focuses small business owners on seeking new opportunities that can prove extremely beneficial to the success of the venture. It can also make the trip along the way more rewarding and provide for more growth of the business, as well as challenging the owner to grow personally. In this book, we’ll focus on small business owners who are unrelenting in their search for opportunities that create value for customers and owners alike.

You may start small, but you should still dream big. Ewing Marion Kauffman, the founder of Marion Labs, offers this encouragement to entrepreneurs and small business owners:

You should not choose to be a common company. It is your right to build an uncommon company if you can—to seek the opportunity to compete, to desire to take the calculated risks, to dream, to build—yes, even to fail or succeed.⁸

Entrepreneurial Opportunities

As an entrepreneur, you must be able to identify attractive entrepreneurial opportunities. Such opportunities make the enterprise economically attractive for the owners while offering customers a product or service that is so appealing that they are willing to pay their hard-earned money for it. In other words, an entrepreneur must find a way to create value for customers. An **entrepreneurial opportunity**, then, is an *economically attractive* and *timely* opportunity that creates value for both prospective customers and the firm's owners. It involves much more than merely having a good idea.

Let's look at three ventures started by some present-day entrepreneurs who have successfully created value for customers and themselves alike.

THREE SUCCESS STORIES

Ace Hotels (Seattle, WA)⁹

The Ace Hotel brand is so cool, it even has its own special-edition Converse high tops. Alex Calderwood, co-founder and creative mastermind behind the industry's hippest hotel properties, is showing off a pair to his business partners, Wade Weigel and Doug Herrick, in the airy, stripped-down lobby of the Seattle Ace. . . .

Ace Hotels reflect Calderwood's individualistic spirit. Seattle's Ace—the chain's first—is like nowhere you've stayed before. Located in a bustling downtown bar district, the hotel has unobtrusive double glass doors that open onto a flight of stairs leading up to the front desk and narrow hallways that resemble a modern art installation. The building's 28 uniquely decorated rooms (some share bathrooms and one boasts a revolving door and private deck) have been transformed into bright, understated spaces, with Vizio flatscreen TVs, platform beds and exposed bricks and pipes. The shower curtain is a red recycled welding curtain, a copy of the Kama Sutra sits next to a Bible with a camouflage-style cover and the vending machine sells hangover pills, playing cards, and Botan Japanese rice candies.

The most unusual part? Rates start below \$100, so weekends are regularly booked a month in advance. And, in fact, Calderwood and his partners planned for only one hotel, but following the immediate success of the 1999 opening—Ace Seattle was cash flow positive before the first year was up, with an occupancy rate on par with established hotels' during its second—they decided to open larger



entrepreneurial opportunity

An economically attractive and timely opportunity that creates value for interested buyers or end users.

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locations in Portland in 2002, Palm Springs, California, in 2009 and Manhattan earlier this year. “We’ve actually exceeded our own projections,” Calderwood says. And most likely everyone else’s, given the continuing economic gloom.

Late Model Restoration Supply (Waco, TX)

He explains, “My goal was to create credibility within the industry.”



When asked what he wished he had known at the beginning, he replies, “I wish I had known the importance of leveraging my assets to acquire financing. If I had worked my business off a cash-only basis over the years, I would not be number one today.”

Guderian is characterized by passion for his work and passion for people, explaining “People do business with people, not companies, so I view employees and vendors as gold, and I treat them as such.”¹⁰

Today, Guderian has essentially turned the day-to-day operations of the business over to his management team so that he has the time to pursue other opportunities, including advising other entrepreneurs who need help in their businesses. He also now gets to spend time in activities that he missed out on when he was younger, such as hunting for Indian arrowheads.¹¹

Five Guys Burgers and Fries (Lorton, VA)

The website for Five Guys Burgers and Fries states, “You might be a Five Guys Fanatic if: You know all of the 15 free toppings by heart; Your heart skips a beat when you see a grease-stained brown paper bag; The sight of foil causes you to salivate....” Five Guys opened their first hamburger joint in Arlington, Virginia, in 1986. The “Five Guys” were Jerry Murrell’s five sons. The décor is simple “military canteen and ’50s diner.” The tiles are red and white, and the food is fresh and great!

Jerry Murrell ran a fraternity house’s kitchen while earning a business degree at the University of Michigan. He let the cook do the ordering, “because she knew what she was doing,” he says. When the kitchen started making money, he knew he’d made the right decision. After graduation, he moved to northern Virginia to sell stocks and bonds. But he decided that a good hamburger-and-fry place could make it, so he and his sons started with a takeout shop in Arlington, Virginia.

After more than 20 years, the menu hasn’t changed much. But Five Guys’ food prices fluctuate, because they are based solely on profit margins—the company’s prices reflect whatever its food costs are. If the price of potatoes increases, the price of fries is adjusted accordingly. Still, customers line up, eating free peanuts while they wait.

Murrell believes that the best blend of fresh sirloin and chuck and the fresh-cut Idaho fries fried in peanut oil are the best advertising for his chain. Five Guys toasts its buns on a grill instead of a bun toaster, the burgers are made to order, and the customer can choose from 15 toppings, but they can’t have a shake. They don’t do drive-throughs and they don’t deliver, not even to the Pentagon.

When they opened their first store in Arlington, not far from the Pentagon, someone at the Pentagon called and said, “We want 15 hamburgers; what time can you deliver?” Murrell responded, “What time can you pick them up? We don’t deliver.” He was told that “Everyone delivers food to the Pentagon.” Murrell and a son made a 22-foot-long banner that said ABSOLUTELY NO DELIVERY and hung it in front of their store. Surprisingly enough, their business from the Pentagon picked up.

In California, Five Guys patrons are generally 25 to 50 years old, with an income of more than \$100,000. They are a little more expensive across the country than the standard fast-food burger places, but it has an almost cult-like following. And Zagat’s 2010 Fast Food Survey ranked Five Guys as the best fast food burger place. Five Guys has been



RICHARD B. LEVINE/News.com

ZAGAT survey rated every year since 2001 and has been voted the *Washingtonian Magazine*'s "Readers' Choice" #1 Burger every year since 1999! Since expanding outside of the Washington, D.C. metro area, Five Guys has continued to garner awards and praise in nearly every market they enter.

Five Guys once turned down an offer from a private equity firm, saying they preferred to keep control to keep it what it is. And it is a successful franchising business. In 2011 Five Guys had 770 stores across the United States and Canada. Their website provides information on franchising, saying "Five Guys is rapidly expanding across the nation and we want to find the best location for new Five Guys restaurants" and to contact their Franchise Development department. With consistent growth, the Murrells prove that flipping burgers doesn't have to be a dead-end job.¹²

So You Want to Be an Entrepreneur



Don't let anyone deceive you: Being an entrepreneur is extremely challenging. As one entrepreneur said, "You get sand kicked in your face all the time, and worse. It takes undying love and passion to keep going. If your mind is wandering to something else you'd rather do, go do that." There will be times when you will be discouraged, maybe even terrified. Some days you will wish you had opted for the "security" of a regular job in an established company, or at least the perception of security. So why do people choose an entrepreneurial career?

For one thing, owning a business can run in a family, even for those who may not continue working in their parent's company. Someone in your childhood—a parent or older sibling or close family friend—may have served as an inspirational role model. Researchers at Case Western Reserve University's Weatherhead School of Management have found a strong connection between entrepreneurship and genetics. Also, the U.S. Census Bureau reports that half of all small business owners who were raised in a small business family worked in the family business before founding their own ventures.¹³ In other words, it may just be in your DNA.

What other factors might cause you to consider running your own business? Clearly, different individuals have varied reasons and motivations for wanting to be a small business owner. But we suggest a primary reason for becoming an entrepreneur and owning your own business: *to make the world a better place*. John Doerr, one of the most famous venture capitalists of all time, inspired the phrase *make meaning*, suggesting that the most impactful and sustainable businesses are built on such a foundation.¹⁴ Your first goal should be to create a product or service that makes the world a better place. Your company should be about something more significant than yourself. Then, when the days get long or you become discouraged, you will have a sense that what you are trying to do is significant and well worth the effort.

While we believe one of the most important reasons for becoming an entrepreneur is to make meaning, a number of other reasons also make becoming an entrepreneur tremendously attractive. Any attempt to identify all of the various rewards would at best be incomplete, but Exhibit 1-1 summarizes some of the reasons frequently cited for becoming an entrepreneur. We will discuss each in turn.

ENJOY SATISFYING WORK

Entrepreneurs frequently speak of the satisfaction they experience from running their own businesses; some even refer to their work as fun. Rick Davis, founder and CEO of Davaco, a Dallas-based company, says, "There is nothing else I would rather do. I love the

Teaching Kids How to Cook



What started as a simple idea in Waco, Texas, has grown into an international business.

If your children's culinary interest begins with a Happy Meal and ends at the McNuggets, then two Waco moms have an idea for you. In the right environment, with the right teaching, kids enjoy cooking and eating different kinds of foods.

"The kids come in and have a blast," says Suzy Nettles, of Young Chef's Academy. "And the parents are blown away because the kids are learning and preparing food."

Suzy and her business partner, Julie Burleson, started Young Chef's Academy (YCA) in 2003 to teach kids ages 3 to 18 the finer points of kitchen creativity. YCA began when Julie, preparing food for a catering job, kept hearing her then 4-year-old son offering to help. Julie phoned her catering partner. "I said, 'Oh my gosh—I've got it: teaching cooking to kids. It's the perfect business.'"

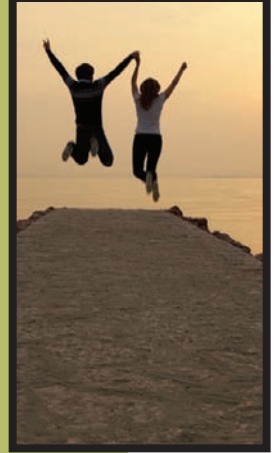
Two years later, they sold their original YCA location and watched it spin off into 85 franchises spreading into 25 states, Canada, and—coming soon—South Africa. These days, Julie, an entrepreneur, and Suzy, a former elementary school teacher, design curriculum, train franchisees, and oversee a growing YCA empire.

"It starts with fun, definitely," Suzy says. "Then we go into that whole culinary thing—all the different things you do with food that will really keep them interested in coming back. It could be background material on history, geography, ancient food techniques. It covers a little bit of everything in every class, birthday party, field trip, whatever they come to."

Parents are surprised, and more than a little pleased, to see that YCA instructors teach so much math and science, [and] some schools contract with them to provide enrichment activities.

"The entire time we're doing a birthday party, we're teaching," says Suzy. "They find out that yeast is a one-celled organism, they find out that the reason they have to knead dough is to create gluten, and we explain what gluten is. And that's all in the middle of a birthday party."

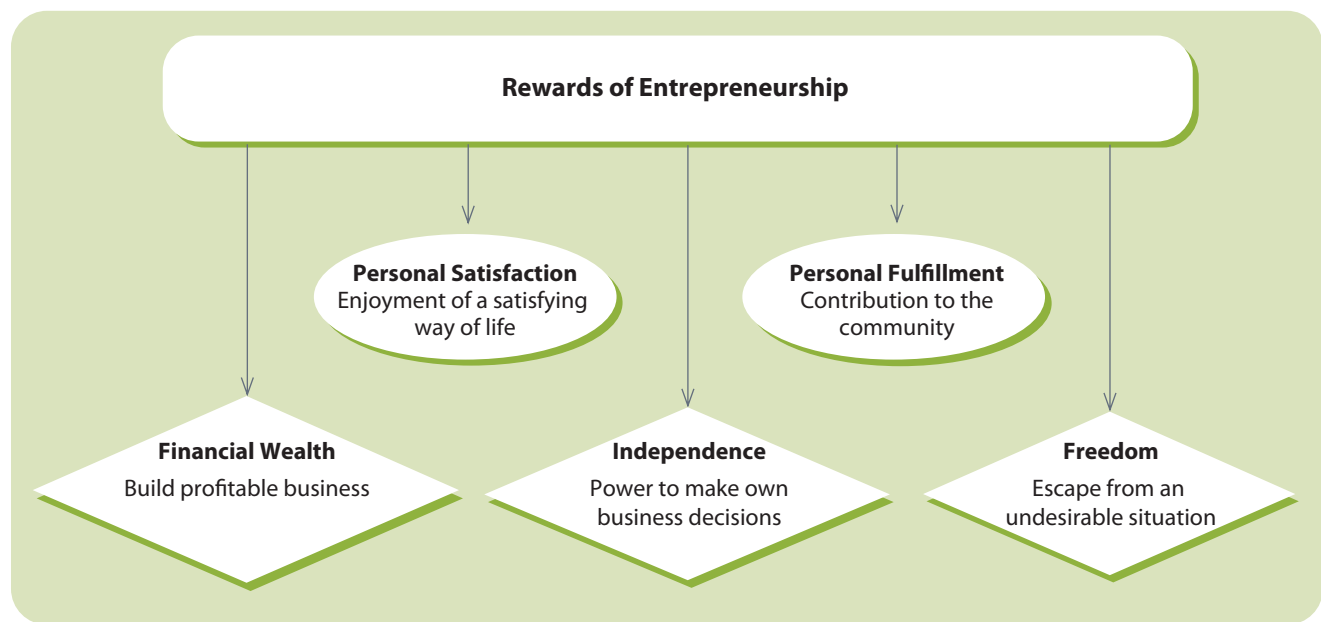
Source: Nick Patterson, "Teaching Kids How to Cook," *Southern Living*, November 2009, pp. 14–15. Reprinted with permission by *Southern Living*.



challenges, working with others to see our dreams come true, and making a difference in the community. It is fun."¹⁵

Most small business owners report satisfaction in their careers. In a Gallup Poll of over 100,000 working adults, researchers examined the relationship between work and happiness for different occupational groups. The researchers developed an overall index of contentment based on six criteria: emotional health, physical health, job satisfaction, healthy behaviors, access to basic needs, and self-reports on overall life quality. Business owners were found to outrank all other occupational groups in terms of overall well-being. The results "reflect the importance of being free to choose the work you do and how you do it, the way you manage your time, and the way you respond to adversity."¹⁶ John Howard, director of the National Institute for Occupational Safety and Health, says the survey "reaffirms my view that the more control you have over your work, the happier you are."¹⁷

EXHIBIT 1.1 Entrepreneurial Incentives



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Roper Peugeot agrees. As the owner of the 14-employee Overland Park, Kansas, plumbing company that bears his name, Peugeot's business experienced really tough times during the 2007–2009 recession. During that period, he took comfort in the fact that his fate remained in his own hands and not someone else's. Even when things get tough, I am in control," he says.¹⁸

We also know that entrepreneurs are rewarded through the work they do with a particular product or service, enjoyable associations, and respect from their community. For many entrepreneurs, the personal satisfaction they receive from their businesses is even more important than the money.

FINDING FULFILLMENT

Some people are drawn to entrepreneurship as a way to make a positive contribution to their community. They want not only personal satisfaction, but also fulfillment by making a difference in their employees' lives and in their communities. Take, for example, Nick Sarillo. When Sarillo started his pizza business, his goal was to create a corporate culture unlike any he had seen. One part of his plan was to develop a strong relationship with the communities where he had restaurants. He wanted to "feel the community's pain, share its joy." In recognition of the difficult times many in the community were facing, Sarillo offered half prices on Mondays for anyone dining in the restaurants and half price for takeouts on Tuesdays. On one evening, Sarillo charged nothing for the meals he served, at a cost of \$20,000 to the business. The company also hosts fundraisers every week and contributes 15 percent of its gross profits to charitable causes. And it sponsors benefits one or two times a year for families who are experiencing large medical bills. Christopher Adams, Sarillo's partner, believes that giving back to the community has an ancillary benefit for the business: "It reminds our team members how incredibly different we are from any other place they know."¹⁹

One for One

Blake Mycoskie's first venture was a door-to-door laundry business serving students, EZ Laundry, which he started while on a partial tennis scholarship at Southern Methodist University in Dallas. After expanding EZ Laundry to four colleges, Mycoskie sold his interest in the business and moved to Nashville to start an outdoor-media company. Clear Channel bought his company three years later.



a27/ZUMA Press/Newscom

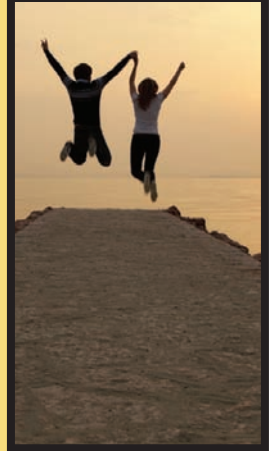
In 2002, Mycoskie and his sister teamed up to compete on the CBS reality show "The Amazing Race." They didn't win, but he ended up back in Argentina. "On my visit, I saw lots of kids with no shoes who were suffering from injuries to their feet." Wanting to help, he created TOMS Shoes, a company that would match every pair of shoes purchased with a pair of new shoes given to a child in need. Mycoskie returned to Argentina with a group of family, friends, and staff later that year with 10,000 pairs of shoes made possible by TOMS customers.

Mycoskie explains "A leading cause of disease in developing countries is soil-transmitted diseases, which can penetrate the skin through bare feet. Wearing shoes can help prevent these diseases, and the long-term physical and cognitive harm they cause."

The TOMS mission of giving shoes has attracted other brands, resulting in unique and successful collaborations. Ralph Lauren sold co-branded Polo Rugby TOMS, giving a matched pair with every pair sold. Element Skateboards has issued limited edition TOMS + Element shoes as well as a One for One skateboard. With every skateboard purchased, one will be given to a child at the Indigo Skate Camp in Durban, South Africa. Mycoskie explains, "It is TOMS' hope that as our One for One movement continues to grow, more and more companies will look to incorporate giving into what they do."

TOMS can be found online and in stores like Whole Foods and Nordstrom. As of September 2010, TOMS has given over one million pairs of new shoes to children in need around the world through Giving Partners.

Source: Adapted from Jessica Shambora, "Blake Mycoskie, Founder of TOMS Shoes," *Fortune*, Vol. 161, No. 4 (March 22, 2010), p. 72; <http://www.youtube.com/user/tomsshoes>; and <http://www.toms.com/our-movement>.



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In most cases, the desire to give back is one element in a mix of motivations. In some endeavors, however, it is a particularly strong force that drives the thinking of the entrepreneur. A survey by the National Federation of Independent Business found that²⁰

- Ninety-one percent of small business owners contributed to their community through volunteering, in-kind contributions, and/or direct cash donations. About 41 percent contributed in all three ways. The estimated average value of contributions is \$6,600 per small employer, for a total of roughly \$40 billion.
- The most important reason for giving tended to be associated with personal satisfaction and fulfillment. The least important reason was direct business benefits. Owners of larger small firms were more likely to see a direct business benefit in

contributing to the community, but they, too, were much more likely to attribute their behavior to personal reasons.

- Creating a better business climate and making the community a better place to live were also important reasons to contribute, though typically not as important as personal satisfaction and fulfillment.

If you are at a university, notice the names on the buildings. In most cases, the names are those of entrepreneurs who have given back to their alma mater. One university president commented to one of the authors, “It is entrepreneurs who endow universities.” It was Winston Churchill who once said, “We make a living by what we get, but we make a life by what we give.” It is the authors’ experience that entrepreneurs are one of the most giving groups we know.

Small business owners don’t—and shouldn’t—expect anything in return for their community stewardship. But, as Gary Deaton points out, “To say there’s not a benefit would be naive. Everything you do in life has a positive or a negative effect. So the more things you do for the right reasons, the more positive results you’ll see.”²¹

DEVELOP FINANCIAL WEALTH

Contrary to what some people believe, there is nothing wrong with making money. As a general rule, when businesses are profitable, everyone benefits. Jobs are created, taxes are paid, and charities receive donations. Furthermore, like any other job or career, starting a business is a way to earn money and make ends meet. Of course, some entrepreneurs earn *lots* of money. In *The Millionaire Next Door*, Stanley and Danko note that self-employed people are four times more likely to be millionaires than are those who work for others.²²

How much money should an entrepreneur expect to get in return for starting and running a business? Making a profit is certainly necessary for a firm’s survival. Many entrepreneurs work night and day (literally, in some cases) just to generate enough profits to survive; others receive a modest income for their time and investment. From an economic perspective, however, the financial return of a business should compensate its owner not only for his or her investment of personal time (in the form of a salary equivalent), but also for any personal money invested in the business (in the form of cash distributed to the owner and the increased value of the business) and for the risk he or she is taking. That is, entrepreneurs should seek a financial return that will compensate them for the time and money they invest and also reward them for the risks and initiative they take in starting and operating their own businesses.

A significant number of entrepreneurs are, no doubt, highly motivated by the prospect of making money. They have heard the stories about people who launched dot-com companies and quickly became multimillionaires. While some entrepreneurs do become rich quickly, the majority do not. Therefore, a more reasonable goal would be to “get rich slowly.” Wealth will most likely come, provided the business is economically viable and the owner has the patience and determination to make it happen.

BE YOUR OWN BOSS

Many people have a strong desire to make their own decisions, take risks, and reap the rewards. Being one’s own boss can be an attractive ideal. For these individuals, freedom to operate independently is important. When we ask entrepreneurs about their main reason for leaving their jobs at other companies, about 40 percent say that they wanted to be their own boss.

The smallest businesses (i.e., part-time businesses and one-person firms), of which there are millions in the United States, probably offer the greatest flexibility to entrepreneurs.



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Some of these businesses can even hang a “Gone Fishing” (or the equivalent) sign on the door when the entrepreneur feels the urge to engage in nonbusiness activities. Even the owner of a larger firm may have a lot of discretion in how he or she spends time. In general, there is a good deal of independence inherent in the work. Entrepreneurs can do things their own way, reap their own profits, and set their own schedules.

Of course, independence does not guarantee an easy life. Most entrepreneurs work very hard and for long hours. They must remember that the customer is, ultimately, the boss. But they do have the satisfaction of making their own decisions within the constraints required to build a successful business.

ESCAPE A BAD SITUATION

People sometimes use entrepreneurship as an escape hatch, to free themselves from an undesirable situation. Some may wish to leave an unpleasant job situation, while others may seek change out of necessity. Other individuals become entrepreneurs after being laid off by an employer. Unemployed personnel with experience in professional, managerial, technical, and even relatively unskilled positions often contemplate the possibility of venturing out on their own. Those who started or acquired small businesses as a result of financial hardship or other severely negative conditions have appropriately been called **reluctant entrepreneurs**.

In 2001, Tina Aldatz faced her now-or-never moment when she was laid off from her job at an Internet startup. Deciding to test her entrepreneurial skills, she set a deadline of six months to see what she could do before trying to get a new job. Aldatz had burned her feet as a child, so high heels were terribly painful to wear. She had been thinking about creating a designer insole that looked good and felt better than those in other shoes. In no time, she had a working prototype of a new insole for high heels, and by six months, she was shipping out her first product, in spite of some early obstacles. Nine years later, her firm, Foot Petals, had sales of over \$10 million.²³

Individuals may also flee the bureaucratic environment of a corporation that seems stifling or oppressive to them. In a survey of 721 office workers, 42 percent had considered quitting their jobs over bureaucratic hassles.²⁴ Entrepreneurship often provides an attractive alternative for individuals fleeing from such undesirable situations (sometimes called **refugees**).

Karyn Couvillion, co-founder of Reeboot Strategy in Austin, Texas, is an example of a corporate refugee, someone who decided to leave a bad situation.

Three hundred and fifty e-mails a day in my inbox. BlackBerry, cell phone, and laptop constantly in tow. Check my Outlook calendar and see that I'm double- or triple-booked in meetings every hour, plus a 7 a.m. global conference call. Being told by management that we cannot hire additional head count because of a hiring freeze, despite the hefty increase in responsibilities for my team. That was me a year ago. The red tape, politics, ridiculous expectations, and meager resources made it nearly impossible to do my job as an advertising and brand manager for a large tech company.

So I quit. So did my husband, who worked in a top advertising agency. We decided that life was too short and we had had enough. What was our worst-case scenario if we quit? Having to sell our home and look for jobs elsewhere? Better than losing our marriage and our sanity.

My husband started consulting immediately. I wanted to spend some time with my ill father. The marketing consulting business my husband started took off, and because of our similar backgrounds and experience, it was a natural fit for us to work together.



Courtesy of Foot Petals

reluctant entrepreneur

A person who becomes an entrepreneur as a result of some severe hardship.

refugee

A person who becomes an entrepreneur to escape an undesirable situation.

Ten months after quitting, we have more business than we can handle. My husband named the business Reebot Strategy because in explaining our rationale for quitting our big corporate jobs, he would say: “We needed to hit Control + Alt + Delete on our lives and start over.” When my father died, I was there by his side.²⁵

Only you can know why owning your own business is appealing to you. It could be a combination of some or all of the reasons just discussed, or even one that was not mentioned. Whatever the reason, it is wise to identify what motivates you to be an entrepreneur. It will help you understand what is important to you and give you guidance when making decisions. The old adage “Know thyself” is particularly relevant here. The following questions will help you determine whether owning a small business is a good fit for you:

1. Am I passionate about my product or service?
2. What is my tolerance for risk?
3. Am I effective in making decisions?
4. Am I willing to take on numerous responsibilities?
5. Will I be able to avoid burnout?

The Many Varieties of Entrepreneurship



founder

An entrepreneur who brings a new firm into existence.

Entrepreneurship is marked by diversity—that is, there is great variety both in the people and in the firms that are *entrepreneurial*. As a potential entrepreneur, you can be encouraged by this diversity; you do not need to fit some narrow stereotype. Let’s consider some of the variety we observe in the entrepreneurial world.

FOUNDER ENTREPRENEURS VERSUS OTHER BUSINESS OWNERS AND FRANCHISEES

“Pure” entrepreneurs are **founders** who initiate businesses that bring new or improved products or services to market. They may also be artisans who develop skills upon which they can start their own firms. Or they may be enterprising individuals, often with marketing backgrounds, who draw on the ideas of others to launch new ventures. Whether acting as individuals or as part of a group, founders bring companies into existence by surveying the market, raising funds, and assembling the necessary resources. The process of starting an entirely new business is discussed in detail in Chapter 3.

At some point after a new firm is established, it may be purchased or taken over by a second-generation family member or another entrepreneur who was managing the company. These “second-stage” entrepreneurs do not necessarily differ greatly from founding entrepreneurs in the way they manage their businesses. Sometimes, these well-established small firms grow rapidly, and their orientation will be more akin to that of a founder than to that of a manager. Nevertheless, it is helpful to distinguish between entrepreneurs who start or substantially change companies and those who direct the continuing operations of established businesses.

Franchisees comprise yet another category of entrepreneurs. **Franchisees** differ from other business owners in the degree of their independence. Because of the guidance and constraints provided by contractual arrangements with franchising organizations, franchisees function as limited entrepreneurs. Chapter 4 presents more information about franchisees.

franchisee

An entrepreneur whose power is limited by a contractual relationship with a franchising organization.

Work Less (It's Good for Business)

Brett Schklar was a fast-rising, burn-the-candle-at-both-ends kind of executive. So naturally, he was on a business trip the day of his 31st birthday.

His career as a vice president at a promising tech company was flourishing, and if that came at the expense of time with his family, time spent taking care of himself, time to even pause to celebrate his birthday, well, he was willing to make that sacrifice.

But something happened that day to make him question all that: He had a heart attack.



John Johnston Photography

"Doctors told me I have a condition that needs monitoring, and that stress is a particularly important factor," he recalls. "I needed to work less and reprioritize. I had to change my lifestyle—diet, exercise, everything."

Suddenly he had no choice: He eased off the accelerator both personally and professionally, focused more on his family and young son, and cut back on the 80-hour work weeks, the constant travel, and the late-night, bedside text messaging.

And he started his own business.

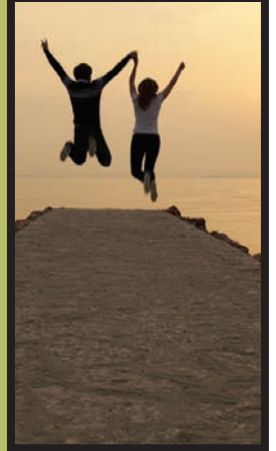
"I realized the reason I had a lot of stress in the corporate environment was because I didn't fit in that environment," Schklar says. "I came to understand that my real passion is getting things done in ways that probably aren't always acceptable in a corporate setting, like saying what's on your mind, actually telling people when you think they're going about something the wrong way, and trying to help them find a better way to do it."

Just four months after he was rushed from his Seattle hotel room to a nearby hospital, he launched the Market Creation Group, a Denver-based business-to-business technology marketing firm, and he did it while working less. Today the business is thriving and growing, and Schklar is living proof that what the work/life experts tell us and what we never quite believe—that paying more attention to our lives outside of work makes us better workers—is actually true....

Brett Schklar built Market Creation Group into Denver's fastest-growing private company by working fewer hours and relying on shrewd planning and execution. Some of the keys:

- **Make sure somebody needs what you are offering.** Identify a niche—a void your company is uniquely positioned to fill—and exploit it.
- **Define the types of clients you want.** And avoid the ones you don't. They're not worth the trouble.
- **Tap your network.** Known quantities offer fewer unpleasant surprises.
- **Hire people to bolster your weaknesses.** The goal is to build a balanced, highly capable staff.
- **Plan, plan and plan some more.** "It's about having a big, awesome long-term vision, plus a staged approach to growth," Schklar says.
- **Make team members privy to your company strategy.** "That gives everybody a compass," he explains, "and leaves less room for error."
- **Deliver superior work.** Satisfied clients are sticky clients. In 2008, Schklar notes, Market Creation Group doubled its revenue without adding a single new client.

Source: David Port, "Work Less (It's Good for Business)," *Entrepreneur*, December 2009, pp. 83–89. Reprinted with permission of Entrepreneur Media, Inc. © 2009 by Entrepreneur Media, Inc. All rights reserved. <http://www.demandmkg.com>



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HIGH-POTENTIAL VENTURES VERSUS ATTRACTIVE SMALL FIRMS AND MICROBUSINESSES

high-potential venture (gazelle)

A small firm that has great prospects for growth.

attractive small firm

A small firm that provides substantial profits to its owner.

Small businesses differ drastically in their growth potential. The few businesses that have phenomenal prospects for growth are called **high-potential ventures, or gazelles**. Even within this group, there is variation in styles of operation and approaches to growth. Some are high-tech startups—the kind that made Silicon Valley in California famous. These success stories often feature a technology wizard with a bright idea, backed by venture capitalists eager to finance the next Microsoft. When such companies prosper, they usually grow at blinding speed and make their founders and investors wealthy by being sold or by issuing shares of stock to public investors.

In contrast to such high-potential ventures, **attractive small firms** offer substantial financial rewards for their owners. Income from these entrepreneurial ventures may easily be in the millions or even tens of millions. They represent a major segment of small businesses—solid, healthy firms that can provide rewarding careers. Many of these are owned by women, who are starting new businesses at twice the rate of men. And an increasing number of them are starting firms in previously male-dominated industries—some of the fastest-growing companies in construction, manufacturing, and computer services are now owned by women.

Despite their progress in the business arena, women-owned companies are significantly smaller than men-owned firms. One reason for this, suggested by Sharon Hadary, the former director and founder of the Center for Women's Business Research, is that women have lower expectations for their businesses than do men. In her opinion,

Men tend to start businesses to be the “boss,” and their aim is for their businesses to grow as big as possible. Women start businesses to be personally challenged and to integrate work and family and they want to stay at a size where they personally can oversee all aspects of the business.²⁶

The least profitable types of businesses—including many service companies, such as dry cleaners, beauty shops, and appliance repair shops—provide modest returns to their owners. These are called **microbusinesses**, and their distinguishing feature is their limited ability to generate significant profits. Entrepreneurs who devote personal effort to such ventures receive a profit that does little more than compensate them for their time. Many companies of this type are also called **lifestyle businesses** because they permit an owner to follow a desired lifestyle, even though they provide only modest financial returns. They employ fewer than 10 employees and make up the largest sector of the U.S. economy. Such enterprises usually do not attract investors and are financed through microfinancing, where loans as small as 25 cents will help fund a small business in some part of the world. Microbusinesses are seen not only in developing countries in Asia, South America, and Africa, but also in the United States.

microbusiness

A small firm that provides minimal profits to its owner.

lifestyle business

A microbusiness that permits the owner to follow a desired pattern of living.

ARTISAN VERSUS OPPORTUNISTIC ENTREPRENEURS

Because of their varied backgrounds, entrepreneurs display differences in the degrees of professionalism and the styles of management they bring to their businesses. The ways in which they analyze problems and approach decision making may differ radically.

In this regard, there are two basic types of entrepreneurs: artisan (or craftsman) entrepreneurs and opportunistic entrepreneurs. **Artisan entrepreneurs** normally have technical job experience, but may lack good communication skills and managerial training.

artisan entrepreneur

A person with primarily technical skills and little business knowledge who starts a business.

An artisan entrepreneur's approach to business decision making is often characterized by the following features:

- They are paternalistic—they guide their businesses much as they might guide their own families.
- They are reluctant to delegate authority.
- They use few (usually only one or two) capital sources to create their firms.
- They define marketing strategy in terms of the traditional components of price, quality, and company reputation.
- Their sales efforts are primarily personal.
- Their time orientation is short, with little planning for future growth or change.

A mechanic who starts an independent garage, a beautician who operates a beauty shop, or a painter who opens a studio are examples of artisan entrepreneurs.

In contrast to the artisan entrepreneur, an **opportunistic entrepreneur** is one who has supplemented his or her technical education with the study of such nontechnical subjects as economics, law, or history. Opportunistic entrepreneurs generally avoid paternalism, delegate authority as necessary for growth, employ various marketing strategies and types of sales efforts, obtain original financing from more than two sources, and plan for future growth. An example of an opportunistic entrepreneur is a small building contractor and developer who adopts a relatively sophisticated approach to management, including detailed accounting and budgeting, precise bidding, and systematic marketing research.

You should understand that our descriptions of these two entrepreneurial styles represent extremes: At one end is a craftsperson, and at the other end is a knowledgeable and experienced manager. The former frequently “flies by the seat of the pants,” and the latter uses systematic management procedures and something resembling a “scientific” approach. In practice, of course, entrepreneurial styles are far less polarized, with entrepreneurs scattered along a continuum of managerial sophistication. This book is intended to help you move toward the opportunistic end of the continuum and away from the artisan end.

opportunistic entrepreneur

A person with both sophisticated managerial skills and technical knowledge who starts a business.

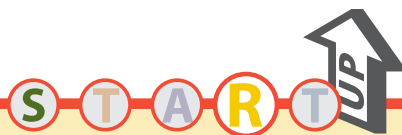
ENTREPRENEURIAL TEAMS

Our discussion thus far has focused on entrepreneurs who function as individuals, each with his or her own firm. And this is frequently the case. However, entrepreneurial teams are becoming increasingly common, particularly in ventures of any substantial size.

An **entrepreneurial team** consists of two or more individuals who combine their efforts to function in the capacity of entrepreneurs. In this way, the talents, skills, and resources of two or more entrepreneurs can be concentrated on one endeavor. This very important form of entrepreneurship is discussed at greater length in Chapter 8.

entrepreneurial team

Two or more people who work together as entrepreneurs on one endeavor.



When to Quit—and When to Stick

As you contemplate owning or growing your own business, take a little time to read *The Dip: A Little Book That Teaches You When to Quit (and When to Stick)*, by Seth Godin.

The Competitive Edge of Entrepreneurs



To maintain their position as a robust part of the total economy, small entrepreneurial companies must compete effectively with firms of all sizes, including large publicly owned companies.

How is it that small and entrepreneurial firms can hold their own and often gain an edge over successful, more powerful businesses? The answer lies in the ability of new and smaller firms to exploit opportunities. If a business can make its product or service “cheaper, faster, and better,” then it can be competitive. Small companies—if well managed—are just as able as larger firms to develop strategies that offer a competitive advantage.

In this section, we will take a look at some ways in which new firms can gain a competitive advantage. In Chapter 3, we’ll elaborate on strategies for exploiting these potential advantages and capturing the business opportunities they make possible.

CUSTOMER FOCUS

Business opportunities exist for those who can produce products and services desired by customers. Small companies are particularly adept at competing when they commit to a strong customer focus. Good customer service can be provided by a business of any size; however, in many instances, small businesses have a greater potential than larger firms to achieve this goal. If properly managed, small entrepreneurial companies have the advantage of being able to serve customers directly and effectively, without struggling through layers of bureaucracy or breaking corporate policies that tend to stifle employee initiative. In many cases, customers are personally acquainted with the entrepreneur and other key people in the small business.

Not all small enterprises manage to excel in customer service, but many realize their potential for doing so. Having a smaller number of customers and a close relationship with them makes customer service a powerful tool for entrepreneurial businesses. For further discussion of this subject, see Chapter 14.

QUALITY PERFORMANCE

There is no reason that a small business needs to take a back seat to larger firms when it comes to achieving quality in operations. We frequently talk to owners of small businesses whose operations not only equal the quality performance of larger firms, but in fact surpass the performance of the giants.

No finer examples of quality performance can be found than MFI International in El Paso, Texas, owned by Cecilia Levine, and J&S Construction in Cookeville, Tennessee, owned by Jack and Johnny Stites. A visitor to these companies—a manufacturer and a general contractor, respectively—can feel their commitment to quality. It is a part of their DNA. In fact, these small business owners can insist on high levels of quality without experiencing the frustration of a large-company CEO who may have to push a quality philosophy through many layers of bureaucracy.

In short, quality is mostly independent of firm size, but if there is an advantage, it most often goes to the smaller business—which is a surprise to most people. As a small business owner, you do not and should not have to accept anything less than the highest-quality performance. An uncompromising commitment to quality will move you a long way down the road to having a competitive advantage relative to other firms in your industry.

INTEGRITY AND RESPONSIBILITY

In order to maintain a strong competitive advantage, it is essential that you add to good customer service and excellent product quality a solid reputation for honesty and

dependability. In fact, the quickest way to lose a competitive advantage is to act without regard for others, or worse, to act dishonestly. We all respond positively to evidence of integrity because we all have, at times, been taken advantage of when buying a product or service.

Jeffrey Timmons and Stephen Spinelli, nationally recognized entrepreneurship researchers at Babson College, conducted a study of 128 presidents/founders who were attending a management program at Harvard Business School. The participants were asked to identify the most critical concepts, skills, and know-how for success at their companies. It is not surprising that 72 percent of the respondents stated that the single most important factor in long-term success was high ethical standards.²⁷

Consistently operating with integrity can set a small business apart as being trustworthy at a time when stories of corporate greed and corruption abound. Above all else, the core values of the entrepreneur, as reflected in what she or he says and how she or he acts, determine the culture within a business. After all, others will do business with a company only when they feel that they can trust that company. Trust is the foundation of all relationships, including business relationships. Chapter 2 discusses the critical importance of integrity and its role in entrepreneurship.

INNOVATION AND GLOBALIZATION

How the world is changing! When Bill Clinton was elected president in 1992, hardly anyone—with the exception of a small number of people in the government and academia—had e-mail. In his book *The World Is Flat*, Thomas Friedman describes the convergence of 10 forces that have “flattened” the world.²⁸ Friedman’s contention that the world is flat means that anything can now be done from anywhere in the world. Individuals, not governments or large corporations, are driving the globalization that we are experiencing all around us, Friedman says. Innovation, both in products or services and in competitive strategies, is within the reach of the small business in ways that were not thought possible a few years ago.

New product innovation often comes from small businesses. Most of the radical inventions of the last century, such as the computer and the pacemaker, came from small companies, not large ones. And this will not change.

Research departments of big businesses tend to focus on improving existing products. Creative ideas may be sidetracked because they are not related to existing product lines or because they are unusual. But preoccupation with an existing product can obscure the value of a new idea. In his book, *The Innovator’s Dilemma*, Clayton Christensen documents how large established companies have missed major transformations in a number of industries—computers (mainframes to PCs), telephones (landline to mobile), photography (film to digital), stock markets (floor trading to online trading), and many others.²⁹

When discussing the role of entrepreneurs in innovation, Amar Bhidé, a noted business researcher at Columbia University, describes how entrepreneurs are good at developing others’ ideas. Bhidé advises us not to equate innovation with technological breakthroughs and scientists in white coats, because few small businesses can afford the luxury of spending large amounts of money on R&D. Instead, he contends that entrepreneurs are better able to take inventions or innovations developed elsewhere and put them into use, which requires marketing, sales, and organization.³⁰ In Bhidé’s opinion, these latter activities are just as much innovation as creating something in a science lab. The mere fact that a small business is not “high tech” should not mean that it is not innovative; it may be just the opposite.

As an example of using existing technology to innovate, consider the current trend among many small businesses to take advantage of “location-based social networking.” Restaurants, retailers, and other types of small businesses are signing up for services

provided by such companies as Facebook, Foursquare, and Gowalla, Inc., that allow consumers equipped with smartphones to “check-in” and broadcast their current store location to their entire social network. This type of viral marketing is an inexpensive and easy way for small businesses to get their names out in the marketplace and engage other consumers who might be perusing their social networks. While these small businesses did not create this innovative technology, they are clearly being innovative in using the technology.

Access to technology has also helped smaller firms compete. Mike Whaling, president of 30 Lines, a social media marketing company, explains, “It starts to level the playing field. It gives small businesses the opportunity to put themselves out there and really compete with larger companies.”³¹ Sophisticated computer software, once accessible only to large businesses, is now available at prices small companies can afford. In fact, the Web is full of free tools to help entrepreneurs start, run, and grow their businesses. Offshoring is another phenomenon of recent years that has allowed small companies to be competitive. In a *Bloomberg Businessweek* cover story on outsourcing, Pete Engardio, Michael Arndt, and Dean Foust observe, “Creative new companies can exploit the possibilities of offshoring even faster than established players.” They use Crimson Consulting Group as a good example. This firm, with only 14 full-time employees, provides global market research on everything from routers to software. It farms out the research to 5,000 independent consultants all around the world. Crimson’s CEO, Gleen Gow, comments, “This allows a small firm like us to compete with [giant consulting firms like] McKinsey and Bain on a very global basis with very low costs.”³²

SPECIAL NICHE

Almost all small businesses try to shield themselves from competition by targeting a specific group of customers who have an identifiable but very narrow range of product or service interests and comprise what is called a **niche market**. The niche might consist of a uniquely specialized product or service, or it might be a focus on serving a particular geographical area.

A *Wall Street Journal* article highlighted the re-emergence of small, niche specialty shops in the United States by writing somewhat humorously about Tom Hanks and Meg

Ryan as stars in a sequel to the 1998 hit movie “You’ve Got Mail.” Tom’s mega-bookstore chain Fox & Sons has to file for bankruptcy because the Internet has taken away much of his large-volume discount business. At the same time, an opportunity develops for the re-emergence of a local store to better serve those consumers who prefer not to spend their time searching for books online. Tom and Meg find themselves investing their savings to re-open Meg’s old neighborhood bookstore to take advantage of this niche market.³³ This entertaining example is only one of many reasons why the future looks

niche market

A specific group of customers with an identifiable but narrow range of product or service interests.

RESOURCES

Websites for Every Entrepreneur

Every entrepreneur should take advantage of the following three websites:

- U.S. Small Business Administration: <http://www.sba.gov>.
- Entrepreneurship website, sponsored by the Kauffman Foundation and the U.S. Commerce Department to promote entrepreneurial activity globally: <http://www.entrepreneurship.org>.
- SCORE, a network of more than 360 offices nationwide where veteran small business executives offer free confidential advice and mentoring: <http://www.score.org>.

bright for those who are willing to put in the necessary work to follow their dream. In reality, numerous small businesses are uniquely positioned to capture niche markets.

Successful entrepreneurs are not overly concerned about their ability to compete with their larger counterparts. With few exceptions, large corporations are bureaucracies, with bureaucrats as managers. As already pointed out, their R&D methods focus on the status quo. In addition, large companies have difficulty in creating effective incentives for employees so that they will think entrepreneurially. There is considerable evidence that most workers in today's huge corporations are simply not engaged in their work. Many, like Jim Halpert from the popular TV show "The Office," would declare, "This is just a job. . . . If this were my career, I'd have to throw myself in front of a train."³⁴

The bottom line is that small companies with an entrepreneurial culture can compete and compete well.



NBC/CLUBIN, JUSTIN/Album/News.com

Getting Started

Starting any type of business career is exciting. Launching one's own business, however, can be far more demanding because of the risk and great potential of such a venture. Let's think for a moment about some special concerns of individuals who are ready to get their feet wet in the exciting waters of entrepreneurship.

AGE AND ENTREPRENEURIAL OPPORTUNITY

One practical question is, "What is the right age to become an entrepreneur?" As you might guess, there is no "correct" answer to this question. The driving factor is not so much age as it is a matter of knowledge and experience. You will need to know and understand the industry you plan to enter, as well as the finances and operations of the business you hope to launch.

Most prospective entrepreneurs must also accumulate at least some of the financial resources needed to launch a business. Some have the impression that startups are financed with bank loans and money provided by venture capitalists. As you will learn, nothing could be further from the truth. New ventures are financed mostly with a founder's personal savings. This initial investment may then be followed by money from friends and family, based largely on personal relationships and not on the merits of the venture. So, having enough time to accumulate startup money is an important factor in determining when you will be able to launch a new business.

Although the timing will vary according to individual circumstances, conventional wisdom suggests that the ideal age to start a business is somewhere between the late 20s and the early 40s, when a balance exists between preparatory experiences and family obligations. Research conducted by Paul Reynolds shows that the highest percentage of new ventures are launched by entrepreneurs in the 25- to 35-year age group.³⁵ As Tyler Self, co-founder of Vision Research Organization, observes, "It's about the trade-off between confidence usually characterized by youth and wisdom based on experience."³⁶

Given both the conventional wisdom and the research findings, members of the demographic group called Generation X currently would be in their prime for starting and growing new businesses. And according to Tamera Erikson, in an article appearing in *Bloomberg Businessweek*, they are doing just that:

*Xers want jobs that offer a variety of career paths and allow them to gain fresh, marketable skills, build a strong network of contacts, and put money in the bank. . . . Xers aspire to run their own entrepreneurial ventures.*³⁷



But conventional wisdom goes only so far. Many people, younger and older, aspire just as strongly to own their own businesses. In fact, a record number of Millennials, otherwise known as Generation Y, who are entering business schools are not interested in traditional careers. Instead, many are writing business plans with the intention of entering the large number of business plan competitions. “It’s a sea of change,” says Thomas Kinnear, director of Michigan’s Zell Lurie Institute of Entrepreneurial Studies.³⁸

Almost 80 million strong, Millennials make up the largest, the most educated, and the most diverse generation in American history. As entrepreneurs, they have been described as follows:³⁹

- They have no fear regarding technology. Many of them cannot even recall life before the Internet.
- They are idealistic and optimistic, and this, in turn, influences their perceptions about business. Their heroes include Steve Jobs and Mark Zuckerberg.
- They are far more collaborative than their predecessors. The idea of being a solo entrepreneur holds little attraction for them. Instead, they start businesses with partners, if not entire teams.
- They frequently build elements of community into their businesses. Matt Mullenweg’s wildly successful software company, Automattic, began as an open-source project to create better blogging software. At the time, Mullenweg was a teenager with no experience in software development. He recruited volunteer coders who built, tested, and refined what has become WordPress—one of the most popular blogging platforms—all for no pay.
- They are impatient. Rather than spending large amounts of time on business plans, they throw out something rough, then tweak and experiment.
- They are committed to making the world a better place. For instance, Meraki, a business backed by Google, builds mesh Wi-Fi networks that provide free or low-cost Internet service to poor communities.
- They may start companies in dorm rooms while simultaneously studying entrepreneurship in the classroom. A number of colleges and universities have created funds to provide money to students so that they can develop their ideas.

“One thing that differentiates the young founders is whom they can connect with early on,” says David Cohen, executive director of TechStars, a Boulder, Colorado, incubator that works with Millennial company founders. “People are starting companies at young ages. They fail fast, learn a lot, and keep going.”⁴⁰

At the other end of the age spectrum, an increasing number of 50- and 60-year-olds are walking away from successful careers in big businesses when they become excited by the prospects of entrepreneurship and doing something on their own. According to the Ewing Marion Kauffman Foundation, for more than a decade, individuals between the ages of 55 and 64 have experienced higher rates of entrepreneurial activity than even their younger counterparts. Like the younger generations, many older entrepreneurs are seeing opportunities to offer products or services for their peers because they feel no one else understands or is interested in the needs of older persons.⁴¹ More than the money, their new businesses offer them a chance to work on something they really want and love to do.

So what is the ideal age to get into the game? It’s whenever your passion, experience, and determination collide with an entrepreneurial opportunity.

CHARACTERISTICS OF SUCCESSFUL ENTREPRENEURS

What kinds of people become successful entrepreneurs? Clearly, no well-defined entrepreneurial profile exists; individual entrepreneurs differ greatly from each other. Knowing this should encourage you if you wish to start your own business: You do not have to fit some prescribed stereotype.

Some qualities, however, are common among entrepreneurs and probably contribute to their success. One of these characteristics is a strong commitment to or passion for the business. It is an attitude that results in tenacity in the face of difficulty and a willingness to work hard. Entrepreneurs do not give up easily. In fact, on most days they are confident of their ability to meet the challenges confronting them. They believe that success depends on their own efforts, as opposed to luck or fate determining their success. That is not to say that they do not have down days when they cannot clearly see how they will survive.

Entrepreneurs are also portrayed as risk takers. Certainly, they do assume risk. By investing their own money, they assume financial risk. If they leave secure jobs, they risk their careers. Starting and running a business can place stress on the entrepreneur's family. After all, when someone with a family starts and runs a business, the whole family is affected, and this must be considered. Even though entrepreneurs assume risk, they are usually what we might term moderate risk takers—accepting risks over which they have some control. Some entrepreneurs are so focused on the opportunity that they do not even think they are taking a risk.

Doug Hall, founder and CEO of Eureka! Ranch, believes that entrepreneurs must first and foremost have the courage and inspiration to embark on any new business venture. He calls it a “Maverick Mindset,” which for him is the willingness to take the “riskier, rockier, less-traveled path because you know it’s right. It takes this courage to turn a dream into reality. An entrepreneur’s dream can’t begin to happen until he/she finds the courage to take the first step, even if it is a small step.” His advice: “Stop saving yourself for tomorrow. Start living now. Get up, get out, get going!”⁴²

Timmons and Spinelli have summarized research on entrepreneurial characteristics. The entrepreneurs they describe as having and exhibiting “desirable and acquirable attitudes and behaviors” fall under the following six descriptors:⁴³

1. *Commitment and determination*—tenacious, decisive, and persistent in problem solving
2. *Leadership*—self-starters and team builders who focus on honesty in their business relationships
3. *Opportunity obsession*—aware of market and customer needs
4. *Tolerance of risk, ambiguity, and uncertainty*—risk takers, risk minimizers, and uncertainty tolerators
5. *Creativity, self-reliance, and adaptability*—open-minded, flexible, uncomfortable with the status quo, and quick learners
6. *Motivation to excel*—goal-oriented and aware of personal strengths and weaknesses

On the other side of the coin, there are some attitudes and behaviors that should be avoided at all cost. An almost certain way to fail as an entrepreneur, and there are many who have done just that, is to do the following:

1. Overestimate what you can do.
2. Lack an understanding of the market.
3. Hire mediocre people.
4. Fail to be a team player, which is usually the result of taking oneself too seriously.
5. Be a domineering manager.
6. Not share ownership in the business in an equitable way.

For the most part, this list describes a leader without humility. Contrary to popular belief, humility is a quality that serves leaders well. Scott Cook is the founder and CEO of Intuit, a computer software company that helps millions of consumers and businesses manage their financing, with products such as Quicken, QuickBooks, TurboTax, QuickBase, and Payroll. Cook believes that humility is an essential trait for any entrepreneur:

*The future belongs to humble leaders. Humble to let your people lead and be led by them. Humble to make the customer your boss. Humble to listen and listen intently. Humble to know that almost all of the best ideas come from others. Humble to admit you were wrong, and tell your team.*⁴⁴

THE IMPORTANCE OF MENTORS

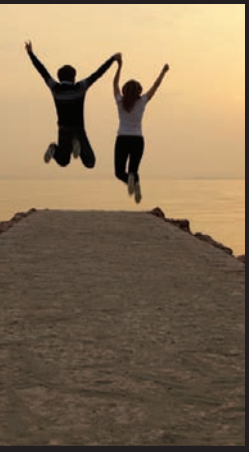
Although there are many different types of entrepreneurs, most have one thing in common—they have found mentors along the way.

As you begin and continue on the entrepreneurial journey, you can make no better decision than to find mentors who can show you the way. **Mentors** are individuals to whom you can go for advice and counsel—people who are pulling for you, wanting you to succeed, and supporting your efforts. They are people who can teach you what to do and

mentor

A knowledgeable person who can offer guidance based on experience in a given field.

LIVING THE DREAM



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entrepreneurial experiences

Rick Davis on Mentoring

Rick Davis, founder and CEO of Davaco, Inc., explains how influential and important a mentor's guidance, help, and encouragement can be.

My number one mentor and the person who had the biggest influence on my professional career was my father, Charles "Skip" Davis. While both my father and my mother served as role models in many areas throughout my life, it was my father who nurtured my entrepreneurial spirit. He led by example through his own professional accomplishments and supported me—financially, emotionally, and spiritually.

Like my father, I served as a fireman, and, like him, I chose to take advantage of my "off-days" to venture into other business opportunities. He dived into plumbing and eventually started his own insurance company, while my interests were in real estate and construction.

Like many young men with an entrepreneurial spirit, I had a vision, but I didn't have the capital to make it all happen. Without my dad to co-sign my first \$4,500 loan, I could not have financed my first HUD renovation project. In effect, his signature launched my career. Later, as I set my sights on multi-family apartment complexes, my dad was there to co-sign for me again. Obviously, this was a significant investment that could have resulted in financial ruin. Fortunately, that particular project turned a profit for both of us. His ongoing guidance and leadership throughout that project, as well as his support, demonstrated incredible faith in my abilities. This blend of risk taking, hard work, and trust ultimately gave me the confidence I needed to be successful.

My dad taught me values and skills that make for both an entrepreneur and a great person. Do what you say you are going to do, never settle for anything less than the best, and learn from your mistakes and your triumphs.



© Rick Davis

Source: Interview with Rick Davis, October 11, 2010. <http://www.davacoinc.com>

how to do it and, most importantly, encourage you on those days when you want to throw in the towel. These “coaches” can show you how to avoid mistakes and be there to give you the benefit of their years of experience.

Success in Business and Success in Life

So far, we have discussed entrepreneurship and small business from a number of angles. As you contemplate taking such a direction yourself, we urge you to broaden your perspective. As aptly expressed by author and very seasoned entrepreneur Norm Brodsky,

*Building a successful business is not an end in itself. It is a means to an end. It is a way to create a better life for you and those whom you love, however you—and they—may define it. You need to do the life plan first and then keep revisiting it, to make sure it's up to date and your business plan is helping you achieve it. That habit, I can assure you, will prove to be the most important of them all.*⁴⁵



LOOKING BACK AT AN ENTREPRENEURIAL LIFE

When an entrepreneur makes that final exit from the entrepreneurial stage, his or her business achievements become history. Reflecting on their lives and businesses at that point in their journeys, many entrepreneurs have come face to face with questions such as these: Was it a good trip? What kind of meaning does it hold for me now? Can I feel good about it? What are my disappointments? How did I make a difference? Such questions lead entrepreneurs to reassess their values, priorities, and commitments. By anticipating these questions well in advance, an entrepreneur can identify his or her most basic concerns early in the journey. Without reflection, the entrepreneurial journey and its ending are much more likely to prove disappointing in the end.

Assessment of entrepreneurial performance requires establishing criteria. Obviously, no single standard can be applied. For example, a person who measures everything by the dollar sign would determine the degree of an entrepreneur's success by the size of his or her bank account. However, we believe that most entrepreneurs will eventually think about achievements in terms of personal values and goals, rather than textbook criteria, popular culture, or financial rules of thumb. In all likelihood, a number of basic considerations will be relevant to the entrepreneur's sense of satisfaction.

In anticipating this time of looking back, an entrepreneur should think in terms of a legacy. A legacy consists of those things passed on or left behind. In a narrow sense, it describes material possessions bequeathed to one's heirs. In a broader sense, it refers to everything that one leaves behind—material items, good or bad family relationships, and a record of integrity or greed, of contribution or exploitation. An **entrepreneurial legacy** includes both tangible items and intangible qualities passed on not only to heirs but also to the broader society. You can appreciate, then, the seriousness with which the entrepreneur needs to consider the kind of legacy he or she is building.

entrepreneurial legacy
Material assets and intangible qualities passed on to both heirs and society.

WINNING THE WRONG GAME

It is easy for entrepreneurs to get caught up in an activity trap, working harder and harder to keep up with the busy pace of life. Ultimately, such entrepreneurs may find their business accomplishments overshadowed by the neglect or sacrifice of something

more important to them. It's possible to score points in the wrong game or win battles in the wrong war.

Ed Bonneau revolutionized the distribution of sunglasses in the United States and eventually dominated that market with his highly successful business. While growing the firm, Bonneau purchased Pennsylvania Optical (with its patents and contracts with Walmart and Kmart) and industry giant Foster Grant (with its patents and manufacturing divisions). Then, Bonneau sold the business and walked away from it all. From a business standpoint, his was a huge entrepreneurial success story. However, in a comment on how he'd like to be remembered, Bonneau downplayed his financial wealth:

I would hope that they knew something else besides that I once ran the biggest sunglass company in the world. That's not the number one thing that I'd want to be known for. It's okay, but I'd much rather have that final assessment made by my kids and have them say, "He was a terrific dad." I never wanted to sacrifice my family or my church for my business.⁴⁶

And Bonneau's advice to younger entrepreneurs follows a similar theme:

Take God and your family with you when you go into business, and keep that balance in your life. Because when you get to be 60 years old and you look back over your life, if all you have is the biggest sunglass company in the world and a pot full of money in the bank . . . it won't be enough. Your life is going to be hollow, and you can't go back and redo it.⁴⁷

Entrepreneurs typically work very long hours, especially in the beginning. Sometimes, however, their obsession with work and the business becomes too extreme. Based on interviews with repeat entrepreneurs, Ilan Mochari summarized their reports of early mistakes: "If they had it to do all over again, most of the group would have spent more time away from their first companies, hanging with the family, schmoozing up other CEOs, and pondering the long-term picture."⁴⁸

An excessive focus on money or work, then, can twist the entrepreneurial process. The outcome appears less satisfying and somehow less rewarding when the time for exit arrives.

CRAFTING A WORTHY LEGACY

In entrepreneurial terms, what constitutes a worthy legacy? One issue is the nature of the endeavor itself. A business that operates within the law, provides jobs, and serves the public provides a good foundation for a satisfying entrepreneurial experience. Although a business that peddles pornography on the Internet might make a lot of money for its owner, most of us would dismiss it as an unworthy enterprise because of its harmful, destructive effects.

Within many individuals is a streak of nobility that gives them a genuine concern for the well-being of others. Their positive attitudes propel them toward endeavors of practical service to society.

Bernard Rapaport, a highly successful, principled, and generous entrepreneur, has stressed the importance of the means a person takes to achieve a given end. "Whatever it is you want to achieve," he said, "*how* you achieve it is more important than if you achieve it." At 93 years of age, reflecting on life and legacy, he said, "What do I want to do? I want to save the world."⁴⁹

Such idealism can guide an entrepreneur into many endeavors that are useful to our economic system. In fact, some entrepreneurial ventures are specifically designed to meet the particular needs of society. J. O. Stewart, a successful entrepreneur, has in his later years launched a firm whose primary objective is to provide good, low-cost housing to families

entrepreneurship + integrity

Leaving a Legacy as Seen Through a Son's Eyes

This feature is based on an interview by Ty Findley, an MBA student at the time, of his father, Steven Findley, founder and CEO of Titan Dynamics Systems, Inc., along with Ty's own perception of his father's legacy.

After having sold his battle effects simulations (BES) company, Titan Dynamics Systems Inc., my dad, Steve Findley, has had the time to look back and reflect on the entrepreneurial legacy he worked to create. Founding Titan Dynamics in 1992, Dad was awarded the largest BES contract in the history of the United States, valued at \$500 million, and orchestrated the growth of his company from zero to \$11.5 million in revenues in 2006. But when I asked about the legacy he hopes to leave behind with his business, those numbers were not what came to his mind. In my dad's words, "My business revolved around designing and producing quality military training equipment that increased the chances of American soldiers returning safely back home because of the training they received through our product."

In other words, Steve Findley was driven primarily by his desire to make the world a safer place for his country's soldiers.

Ty says that his dad's legacy was not limited to what he did as an entrepreneur who was building a company. Ty explains, "My dad also wanted to make a difference through his family and community involvement. Dad managed to balance operating Titan Dynamics with raising and supporting a family of eight children." Steve says, "It means a lot to know that my children have always felt loved by their father, and that they are growing into individuals who will hopefully have a positive impact on the world."

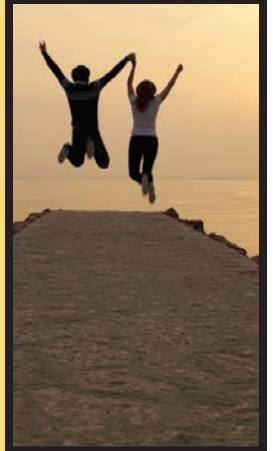
Giving back to society is also something that Steve wants to be remembered for. For example, he volunteered his time to serve as a political representative for his local county congressional district. As he commented, "I believe that everyone should try to leave the world in a little better shape than they found it for the next generation."

These qualities have helped guide Steve's life and have crafted a legacy that his family and friends admire and respect. His actions have had a far-reaching positive impact and can serve as an example of how choosing to leave a meaningful and significant legacy should be something that everyone strives for.

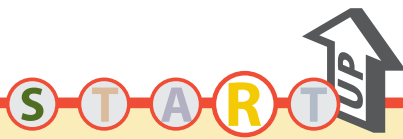
While an entrepreneurial legacy may seem a distant objective for many budding entrepreneurs, it is something that should not be ignored. As Ty says, "Someday it will be my turn to look back on my life journey and on what I will be able to say about the legacy I left."

Source: Based on Ty Findley's interview of his dad, Steve Findley, October 15, 2010.

LIVING THE DREAM



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RESOURCES

Begin with the End in Mind

As an aspiring or new owner of your own business, begin with the end in mind. Visualize what you want the journey to be like and what you will have when it is completed. Be clear in your own mind as to what would be a “home run” for you.

Steven Covey’s *Seven Habits of Highly Effective People* has helped a lot of entrepreneurs and business leaders, especially when it comes to the important relationships in life. After all, if you don’t take your friends and family with you, you will be disappointed, no matter how much money you have.

who cannot otherwise afford it. His motivation for this venture is personal concern for the needs of low-income families.

For most entrepreneurs looking back on their careers, *fulfillment* requires that their businesses have been constructive or positive in their impact—at the least, their effect should have been benign, causing no harm to the social order. In most cases, entrepreneurial businesses make positive contributions by providing jobs and services. A few busi-

nesses make an additional contribution in addressing special needs in society, as is the case for TOMS Shoes, described earlier in the chapter.

BEGINNING WITH THE END IN MIND

The criteria by which one evaluates entrepreneurship must be personal. Stephen R. Covey, in *The Seven Habits of Highly Successful People*, suggests that the most effective way “to begin with the end in mind” is to develop a personal mission statement or philosophy or creed.⁵⁰ Though individuals will have different mission statements because their goals and values will vary, widely shared values will underlie many of their judgments.

An entrepreneur builds a business, a life, and a legacy day by day, starting with the initial launch and proceeding through the months and years of operations that follow. A person exiting an entrepreneurial venture has completed the business part of his or her legacy—it must be constructed during the life of the enterprise itself. Therefore, an entrepreneur needs to keep the end in mind while making innumerable operating decisions. By selecting the proper values and wisely balancing their application, an entrepreneur can make a satisfying exit, leaving a positive and substantial legacy to heirs, employees, the community, and the broader society.

It is the authors’ deepest hope that your journey in owning your own business and being an entrepreneur—if you choose to do so—will be a richly rewarding experience, not only financially but also, more importantly, in the things that matter most in life. Above all, we hope that your legacy will bring both satisfaction *and* fulfillment for you and the important people in your life.

WHERE TO FROM HERE

An airplane pilot not only controls the plane during takeoff but also flies it and lands it. Similarly, entrepreneurs not only launch firms but also “fly” them; that is, they manage their firm’s subsequent operation. In this book, you will find a discussion of the entire entrepreneurial process. It begins in the remainder of Part 1 (Chapter 2) with an examination of the fundamental values of the entrepreneur. Parts 2 and 3 look at a firm’s basic strategy, the various types of entrepreneurial ventures, and the initial planning that is required for business startups. Parts 4 through 6 deal with the marketing and management of a growing business, including its human resources, operations, and finances.



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1. Define the terms *entrepreneur* and *small business owner*, and explain how the terms are related.

- An entrepreneur is a person who relentlessly pursues an opportunity, in either a new or an existing enterprise, to create value, while assuming both the risk and the reward for his or her efforts.
- An entrepreneur thinks differently about how to use resources than do employee-managers.
- Owner-managers who buy out founders of existing firms, franchisees, and second-generation operators of family firms may also be considered entrepreneurs.
- Definitions of small business are arbitrary, but we focus on firms that are small compared to the biggest firms in the industry, that have mostly localized operations, are financed by a small number of individuals, and have growth potential.
- Our focus is on small business owners who are unrelenting in their search for opportunities that create value for customers and owners alike.

2. Explain the basic characteristics of entrepreneurial opportunities, and give examples of individuals who successfully started their own businesses.

- An entrepreneurial opportunity is an *economically attractive* and *timely* opportunity that creates value for prospective customers and the firm's owners alike, which involves much more than merely having a good idea.
- Entrepreneurial opportunities make the enterprise economically attractive for the owners while offering customers a product or service that is so appealing that they are willing to pay their hard-earned money for it.
- Ace Hotels, Late Model Restoration Supply, and Five Guys Burgers and Fries are examples of highly successful startups in different industries and different types of owners.

3. Describe some motivators or rewards for owning your own business.

- One of the primary reasons for becoming an entrepreneur is to make the world a better place (make meaning).
- Important secondary attractions to entrepreneurship are personal satisfaction, personal fulfillment (contributing to one's community), profit, independence, and freedom (escaping from a bad situation).

4. Identify some of the basic types of entrepreneurs and entrepreneurial ventures.

- Founders of firms are "pure" entrepreneurs, but those who acquire established businesses and franchisees may also be considered entrepreneurs.
- A few entrepreneurs start high-potential ventures (gazelles); other entrepreneurs operate attractive small firms and microbusinesses (lifestyle businesses).
- Women entrepreneurs are starting new businesses at twice the rate of men, and they are entering many non-traditional fields previously dominated by men.

- Based on their backgrounds and management styles, entrepreneurs may be characterized as artisan entrepreneurs or opportunistic entrepreneurs.
- Entrepreneurial teams consist of two or more individuals who combine their efforts to function as entrepreneurs.

5. Describe five potential competitive advantages of small entrepreneurial firms compared to large companies.

- *Customer focus*: Small business owners have an opportunity to know their customers well and to focus on meeting their needs.
- *Quality performance*: By emphasizing quality in products and services, small firms can build a competitive advantage.
- *Integrity and responsibility*: Independent business owners can build an internal culture based on integrity and responsibility that is reflected in relationships both inside and outside the firm. Such a culture helps strengthen the firm's position in a competitive environment.
- *Innovation and globalization*: Many small firms and individual operators have demonstrated a superior talent for finding innovative products and developing better ways of doing business. Offshoring has also given some small companies a competitive edge.
- *Special niche*: Small firms that find a special niche of some type can gain an advantage in the marketplace.

6. Discuss factors related to readiness for entrepreneurship and getting started in an entrepreneurial career.

- The ideal age to start a business appears to be between the late 20s and early 40s, when a person's education (knowledge), work experience, family situation, and financial resources are most likely to enable him or her to become an entrepreneur.
- Many of the Millennials, or Generation Y, are proving to be effective entrepreneurs, in spite of their young age.
- Persons in their 50s and 60s are becoming entrepreneurs at a faster rate than those at any other age.
- There is no well-defined entrepreneurial profile, but many entrepreneurs have such characteristics as a passion for their business, self-confidence, and a willingness to assume moderate risks.
- Successful entrepreneurs are also thought to possess leadership skills, a strong focus on opportunities, creativity and adaptability, and motivation to excel.
- Entrepreneurs can make no better decision than to develop relationships with mentors who can provide advice and counsel.

7. Explain the concept of an entrepreneurial legacy and the challenges involved in crafting a meaningful legacy.

- An entrepreneur's legacy includes not only money and material possessions but also such nonmaterial things as personal relationships and values.

- Part of the legacy is the contribution of the business to the community.
- A worthy legacy includes a good balance of values and principles important to the entrepreneur.
- Building a legacy is an ongoing process that begins with the launch of the firm and continues throughout its operating life.

Key Terms

entrepreneur p. 6

bootstrapping p. 6

small business p. 6

entrepreneurial opportunity p. 7

reluctant entrepreneur p. 15

refugee p. 15

founder p. 16

franchisee p. 16

high-potential venture (gazelle) p. 18

attractive small firm p. 18

microbusiness p. 18

lifestyle business p. 18

artisan entrepreneur p. 18

opportunistic entrepreneur p. 19

entrepreneurial team p. 19

niche market p. 22

mentor p. 26

entrepreneurial legacy p. 27

Discussion Questions

1. The three stories discussed at the beginning of the chapter are to some extent exceptions to the rule in the amount of success the entrepreneurs experienced. What, then, is their significance in illustrating entrepreneurial opportunity? Are these stories misleading?
2. What is meant by the term *entrepreneur*?
3. Consider an entrepreneur you know personally. What was the most significant reason for his or her deciding to follow an independent business career? If you don't already know the reason, discuss it with that person.
4. The motivators/rewards of profit, independence, and personal satisfaction are three reasons individuals enter entrepreneurial careers. What problems might be anticipated if an entrepreneur were to become obsessed with one of these rewards—for example, if she or he had an excessive desire to accumulate wealth, operate independently, or achieve a particular lifestyle?
5. Distinguish between an artisan entrepreneur and an opportunistic entrepreneur.
6. What is the advantage of using an entrepreneurial team?
7. Explain how customer focus and innovation can be special strengths of small businesses.
8. Why is the period from the late 20s to the early 40s considered to be the best time in life to become an entrepreneur?
9. Explain the concept of an entrepreneurial legacy.
10. Explain the following statement: "One can climb the ladder to success only to discover it is leaning against the wrong wall."

You Make the Call

SITUATION 1

In the following statement, a business owner attempts to explain and justify his preference for slow growth in his business.

I limit my growth pace and make every effort to service my present customers in the manner they deserve. I have some peer pressure to do otherwise

by following the advice of experts—that is, to take on partners and debt to facilitate rapid growth in sales and market share. When tempted by such thoughts, I think about what I might gain. Perhaps I could make more money, but I would also expect a lot more problems. Also, I think it might interfere somewhat with my family relationships, which are very important to me.

Question 1 Should this venture be regarded as entrepreneurial? Is the owner a true entrepreneur?

Question 2 Do you agree with the philosophy expressed here? Is the owner really doing what is best for his family?

Question 3 What kinds of problems is this owner trying to avoid?

SITUATION 2

Bear Bills, Inc., was started in 2008 by three Baylor University alumni in their early 20s as a solution to a problem every college student faces—paying utilities! The company's name originated from the university's mascot, the Baylor Bears. The business helps students pay their utility bills without all the hassles of having to collect from each roommate and getting a check to the utility company. Bear Bills pays the bills each month and splits the amount based on each student's pro-rated portion. The utility companies like the arrangement and are willing to give Bear Bills a commission for increasing their market share. The apartment houses where the students live like the deal because the utilities remain in the renters' names and the management receives a referral fee from Bear Bills. Of course, the students sign up because they do not have to bug a roommate to pay their share of the bill. And Bear Bills makes money.

The first year, Bear Bills signed up over 2,000 college students at the university. The second year, it incorporated as Simple Bills, Inc., and went to other college campuses, doubling its customers to over 4,000.

At this point, the concept is proven, but the owners have a decision to make. They can raise money from investors and grow the company faster to capture market share, but that will mean they will have to give up some of their ownership in the company. Alternatively, they can continue to bootstrap the business to conserve ownership percentage but cannot grow as rapidly. In other words, they would limit the growth of the business to what can

be financed from the cash flows currently being generated from operations

Question 1 What do you like and not like about the Simple Bills concept?

Question 2 Would you recommend raising funds from outside investors and growing faster or continuing to bootstrap the operations to conserve ownership? Why?

Question 3 What strategy would you suggest for growing the business, assuming new investors are brought in?

Question 4 If you choose to raise funds, whom might you seek as investors?

SITUATION 3

Dover Sporting Goods Store occupies an unimpressive retail location in a small city in northern Illinois. Started in 1935, it is now operated by Duane Dover—a third-generation member of the founding family. He works long hours trying to earn a reasonable profit in the old downtown area.

Dover's immediate concern is an announcement that Walmart is considering opening a store at the southern edge of town. As Dover reacts to this announcement, he is overwhelmed by a sense of injustice. Why should a family business that has served the community honestly and well for 60 years have to fend off a large corporation that would take big profits out of the community and give very little in return? Surely, he reasons, the law must offer some kind of protection against big business predators of this kind. Dover also wonders whether small stores such as his have ever been successful in competing against business giants like Walmart.

Question 1 Is Dover's feeling of unfairness justified? Is his business entitled to some type of legal protection against moves of this type?

Question 2 How should Dover plan to compete against Walmart, if and when this becomes necessary?

Experiential Exercises

1. Analyze your own education and experience as qualifications for entrepreneurship. Identify your greatest strengths and weaknesses.
2. Explain your own interest in each type of entrepreneurial reward. Identify which type of incentive is most significant for you personally and explain why.
3. Interview someone who has started a business, being sure to ask for information regarding the entrepreneur's background and age at the time the business was started. In your report of the interview, indicate whether the entrepreneur was in any sense a refugee, and show how the timing of her or his startup relates to the ideal time for starting a business, as explained in this chapter.

Small Business & Entrepreneurship Resource Center

The Small Business & Entrepreneurship Resource Center offers complete small business management resources through a comprehensive database that covers all major areas of starting, operating, and maintaining a business, including financing, management, marketing, accounting, taxes, and more. Use the access code that came with your new book to access the site and perform the exercises in each chapter.

1. Sherwood T. “Woody” Phifer, who builds handcrafted guitars, exemplifies the artisan entrepreneur. His business success rests on his extraordinary skill in building outstanding electric and acoustic guitars. As a child, if he wanted a toy that he could not afford or find, he would simply make his own. His childhood helped to prepare him for his career. Describe how

his ability to create, along with his fascination in taking things apart and rebuilding them, have helped him to differentiate his business from large guitar competitors, such as Fender and Gibson.

Source: Sonia Alleyne, “Guitar Man: His Instruments Have Resounding Curves,” *Black Enterprise*, Vol. 33, No. 9 (April 2003), p. 64.

2. Entrepreneurial opportunities exist for those who can produce enough products or services desired by customers to make the enterprise economically attractive. Describe how Sara Blakely discovered “the need” for footless pantyhose, and how the product was initially perceived by manufacturers and retailers.

Source: P. Kelly Smith, “The Kindest Cut: Sure, Oprah Cut the Feet Off Her Pantyhose, but She’s Not the One Making Money Off ‘Em,” *Entrepreneur*, Vol. 29, No. 11 (November 2001), p. 134.

Case 1

NAU (P. 693)

Several business associates in the clothing industry start a new clothing company, knowing that the world did not need just another clothing business. Thus, they develop a business model that is unique, combining profits and social responsibility.

ALTERNATIVE CASE FOR CHAPTER 1

Video Case 1, KlipTech, website only

