Chapter Six

Starting Your Own Business: The Entrepreneurship Alternative

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Learning Objectives

1. Define entrepreneur
2. Identify the different categories of entrepreneurs
3. Explain why people choose entrepreneurship as a career path
4. Discuss the environment for entrepreneurs
5. Identify the characteristics of entrepreneurs
6. Summarize the process of starting a new venture
7. Explain intrapreneurship
What is an Entrepreneur?

- A risk taker in the private enterprise system, who seeks a profitable opportunity, and takes the necessary risks to set up and operate a business.

- They differ from many small-business owners in their strong desire to expand and grow their business.

- Entrepreneurs differ from managers through their overriding responsibility to use the resources of the organization to accomplish their goals.

- Resources: [www.entrepreneur.com](http://www.entrepreneur.com) and [www.inc.com](http://www.inc.com)
Categories of Entrepreneurs

- Classic Entrepreneurs
  - Identify business opportunities and allocate available resources to tap those markets

- Serial Entrepreneurs
  - Start one business, run it, and then start and run additional businesses in succession

- Social Entrepreneurs
  - Recognize a societal problem and use business principles to develop innovative solutions

- Lifestyle Entrepreneur
  - Starts a business to gain flexibility in work hours
Entrepreneurship as a Career

- In a recent year, 543,000 new businesses were created each month in the United States.
- The past two decades have shown a heightened interest in entrepreneurial careers.
- People choose entrepreneurship for many reasons:
  - Dissatisfaction with traditional work
  - To fill a gap in goods or services they could use themselves
  - Financial necessity
  - Heightened publicity surrounding celebrity entrepreneurs
Why People Become Entrepreneurs

- Freedom to make decisions and self-management
- Being first to bring an idea for a superior product to market can translate to financial gains as creators of wealth
- Working for a large company does not guarantee job security
- Freedom to decide when, where, and how to work
The Environment for Entrepreneurship

- Globalization
- Education
- Demographic & Economic Trends
- Information Technology

Figure 6.2

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Globalization

- Figure 6.3 shows the highest levels of entrepreneurship activity in various countries

- Factor Driven Economies
  - Zambia, Nigeria, and Malawi

- Efficiency Driven Economies
  - Ecuador, Indonesia, Chile, and Colombia

- Innovation-Driven Economies
  - USA, Canada, Singapore, and Israel
The Environment for Entrepreneurs
(cont.)

- **Education**
  - U.S. colleges and universities: entrepreneurship majors
  - Universities are helping students launch businesses
  - Teaching entrepreneurship to young people

- **Information Technology**
  - Technology has provided entrepreneurs tools to compete
  - Entrepreneurs have used IT to revolutionize industries

- **Demographic and Economic Trends**
  - Aging of U.S. population
  - Increasingly diverse ethnic groups
  - Growth of two-income families
Characteristics of Entrepreneurs

Entrepreneurial Personality

- Vision
- High Energy Level
- Need to Achieve
- Self-Confidence and Optimism
- Tolerance for Failure
- Creativity
- Tolerance for Ambiguity
- Internal Locus of Control
Entrepreneurial Characteristics

- Vision - how to make business ideas successful
- High Energy Level - a willingness to work long and hard
- Need to Achieve competitive drive and desire to excel
- Self-Confidence – optimism and fearlessness
- Tolerance for Failure - not easily discouraged
- Creativity – overcoming difficult problems and situations
- Tolerance for Ambiguity – uncertainties taken in stride
- Internal Locus of Control - control of their own destiny
1. What is the key to business success:
   a. business knowledge
   b. market awareness
   c. hands on management
   d. sufficient capital
   e. hard work

2. If a relative ever asks me for advice about starting a business, I will tell them to:
   a. work for someone else in the field first
   b. write a business plan
   c. study marketing
   d. give up the idea
   e. learn about budgeting

3. Which is the largest potential trouble spot:
   a. too much growth
   b. too little growth
   c. too fast growth
   d. too slow growth
   e. sporadic growth

4. I trust: (select as many as apply)
   a. nobody
   b. myself
   c. my partner
   d. a few key employees
   e. my customers

5. I am unhappy when my employees are:
   a. late
   b. unhappy
   c. abrupt with customers
   d. resigning
   e. less dedicated than me

6. My customers are: (select as many as apply)
   a. always right
   b. too fuzzy
   c. demanding
   d. worth listening to
   e. dumb

7. Rank these in order of importance for small-business marketing success:
   a. word-of-mouth
   b. advertising
   c. signs
   d. location
   e. community events

8. When it comes to money, I am:
   a. careful
   b. too carefree
   c. emotional
   d. shrewd
   e. hard nosed

9. Financially, my firm:
   a. has trouble with cash-flow
   b. has a good line of credit
   c. is financed totally by receipt—no credit
   d. is making better profits this year than last
   e. knows exactly where it is all the time

10. In hiring people:
    a. I take far too long
    b. I look for the cheapest person
    c. personality is more important than experience
    d. I look for the best person, and am willing to pay
    e. I only hire at the trainee level

11. With my employees:
    a. I treat everybody the same
    b. I try to talk privately to everybody once a week
    c. To whatever extent possible I tailor assignments to personalities
    d. I encourage them to talk to me about the business
    e. I try to work alongside them whenever possible

12. The real key to business success is:
    a. hard work and perseverance
    b. fine products and service
    c. advertising
    d. knowing the fundamentals of business
    e. employees

13. Competition is:
    a. dumb
    b. smart
    c. cunning
    d. everywhere
    e. a constant threat

14. The best competitive advantage is:
    a. experience
    b. understanding what the market wants
    c. confidence
    d. conducting a business ethically
    e. a detailed plan

15. I keep:
    a. careful financial records
    b. in touch with my customers
    c. in touch with my employees
    d. trying new techniques
    e. wanting to retire

16. My dream is:
    a. to grow the business until someone else can run it
    b. to work until I drop
    c. to give up these headaches and have more fun at work
    d. to try another business
    e. to take a vacation

17. I think business plans are:
    a. for the birds
    b. nice but not necessary
    c. something I can do with my accountant
    d. useful and informative
    e. essential—wouldn’t do business without them

18. What makes a terrific entrepreneur?
    a. creativity
    b. discipline
    c. consumer orientation
    d. technical proficiency
    e. flexibility

19. What does a business need most?
    a. money
    b. market research
    c. help
    d. time
    e. a solid business plan

20. What is essential to marketing?
    a. “a sixth sense”
    b. market research
    c. customer awareness
    d. experience
    e. testing
Starting a New Venture

Considerations for choosing an idea for your business:

- Find something you love to do and are good at doing
- Determine whether your idea can satisfy a need in the marketplace
- Do what makes you happy and be true to yourself
Choosing a Business Idea

Consider the following guidelines:

- List your interests and abilities, values, beliefs, goals and dreams
- List the types of businesses which match your interests and abilities
- **Read, Read, Read** to identify trends and ideas of future needs for products
- Evaluate ways to improve existing goods and services
- Conduct market research to determine customer interest in your idea or venture
- Become an industry expert by reading about your industry
Buying an Existing Business

- Established businesses may be less risky than starting a new one
- Employees and suppliers are in-place to serve established customers
- The company’s good or service is well known in marketplace
- Necessary permits and licenses are already secured
- In some cases, financing may be easier for an existing business

- Seller may be willing to finance
- There are many available resources for entrepreneurs considering the purchase of an existing business.
Buying a Franchise

- A less risky way to begin a new business than establishing an entirely new firm
- A franchise usually means better brand recognition
- Firms in franchises showing growth include those targeting children and parents, such as photography, tutoring, and security
- Franchise fees can be costly
- See chapter 5 for more about franchising
Creating a Business Plan

- In the past, many entrepreneurs did not always create a business plan when starting a new venture.
- Although flexibility is crucial for any startup, particularly in quickly changing markets, planning is essential.
- Entrepreneurs typically solve problems as they arise, and change course as necessary.
- If seeking funds from outside sources, some planning is necessary.
- Part of the planning effort includes research needed to create a business plan, or a road map of sorts.
<table>
<thead>
<tr>
<th>Online Resources for Preparing a Business Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>AllBusiness.com</strong></td>
</tr>
<tr>
<td><a href="http://www.allbusiness.com">http://www.allbusiness.com</a></td>
</tr>
<tr>
<td>Enter “Business Plan” in the search query to learn more about writing a business plan.</td>
</tr>
<tr>
<td><strong>Inc.</strong></td>
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<td><a href="http://www.inc.com">http://www.inc.com</a></td>
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<td><strong>MoreBusiness.com</strong></td>
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<td><a href="http://www.morebusiness.com">http://www.morebusiness.com</a></td>
</tr>
<tr>
<td>To see a sample plan, select “Write a Business Plan” from the list of templates.</td>
</tr>
<tr>
<td><strong>Small Business Administration</strong></td>
</tr>
<tr>
<td><a href="http://sba.gov">http://sba.gov</a></td>
</tr>
<tr>
<td>Go to “Create Your Business Plan” under “Starting and Managing.”</td>
</tr>
</tbody>
</table>
Finding Financing

- Finding financing remains a key issue for most startups
- Seed capital, funds to launch a company, is a key issue for most startups
- There are two types of financing:
  - Debt Financing – money borrowed to be repaid
  - Equity Financing – a share of ownership is exchanged for money supplied
### 6.2 Funding Used by Entrepreneurs for Start-Ups

<table>
<thead>
<tr>
<th>SOURCE</th>
<th>PERCENTAGE OF ENTREPRENEURS*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-financing</td>
<td>82%</td>
</tr>
<tr>
<td>Loans from family, friends, or business associates</td>
<td>22%</td>
</tr>
<tr>
<td>Bank loans</td>
<td>18%</td>
</tr>
<tr>
<td>Lines of credit</td>
<td>18%</td>
</tr>
<tr>
<td>Venture capital</td>
<td>8%</td>
</tr>
<tr>
<td>SBA or other government funds</td>
<td>4%</td>
</tr>
</tbody>
</table>

*Percentages do not total 100 because entrepreneurs often use multiple sources to finance start-ups.

Debt Financing

- Money borrowed that must be repaid
  - Sources include: banks, finance companies, families & friends, and credit cards

- Very few startups are financed through bank loans, which are difficult to secure in today’s environment

- Applying for a bank or SBA-backed loan requires careful preparation, planning and analysis
  - Entrepreneur’s credit history will be important
  - A professional and detailed business plan is necessary
  - A track record of profits may make it easier to obtain bank financing
Equity Financing

- Entrepreneurs exchange a share of ownership in their company for money supplied by investors
  - Sources of equity financing include family and friends, business partners, venture capital firms, and private or angel investors

- Venture Capitalists
  - Business organizations or groups of private individuals that invest in early-stage, high-potential growth companies

- Angel Investors
  - Wealthy individuals who invest money directly in new ventures in exchange for equity, are a larger source of investment capital for start-up firms
Government Support for New Ventures

- Federal, state, and local governments support new ventures
- The SBA, state and local agencies, and business incubators all offer information, resources, and access to financing
- Enterprise Zones - Entrepreneurship is also encouraged through specific geographic areas designated for economic revitalization
- Enterprise zones encourage investment, often in distressed areas, by offering tax advantages and incentives to businesses
- Government Legislation
  - Immigration Act of 1990
Intrapreneurship

- Promoting innovation within the organizational structures of established companies
- An idea to promote creativity and innovation in order to maintain a competitive advantage in a fast-changing business climate
- Skunkworks is a form of intrapreneurship whereby an employee conceives of an idea and convinces management to provide resources for potential commercialization
- 30 percent of large firms now allocate funds toward intrapreneurship